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# ECONOMICS AND ETHICS

Heath Social Relations Series

# HEATH SOCIAL RELATIONS SERIES

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# Economics And Ethics

## A Study in Social Values

BY
J. A. HOBSON
(Oxford)

*With a foreword by*
*JEROME DAVIS*
*Yale University*

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# FOREWORD

Economics and Ethics are closely interrelated. To the extent that we attempt to apply economic principles to our social order, we cannot leave out of account the moral effects produced. Similarly, when we attempt to approach the "highest good", and "right and wrong" conduct in society, we encounter economic standards and "economic law." Every individual is an economic man. He does not live his life in a vacuum, but in the midst of a complex economic structure which affects his thinking and conduct at almost every point. Because this is true there has been a growing conviction among both economists and sociologists that we need a text-book which introduces the student to the subject of economics from the standpoint of ethical values. An American committee, discussing who would be the best author of such a work, unanimously recommended J. A. Hobson of England. Mr. Hobson, as is well known, has been a lecturer in economics for Oxford University Extension and the London Society for the Extension of University Teaching. Ever since his first volumes appeared, *The Psysiology of Industry* (1889) and *The Evolution of Modern Capitalism* (1894), he has been recognized as one of the foremost economists in the English-speaking world.

For several years Mr. Hobson has been working on the present volume. It is a pioneer work. There are no American text-books available on the subject. To be sure there is a brief pamphlet by C. E. Ayres on *The Nature of the Relationship between Ethics and Economics,* and in England J. A. R. Marriott has written a volume on *Economics and Ethics,* which is in part a popular defense of existing economic practices and conventional standards, while H. F. Ward has recently written a volume bearing the title *Our Economic Morality and the Ethic of Jesus.* Aside from these studies, this is a virgin field.



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In this day and age following a World War costing over twenty-five million dead and ever recurring industrial conflicts, the student of economics is beginning to ask for light on such ethical problems as:

What do we mean by social welfare? To what extent should ethical considerations enter into the organisation of industry or the distributive mechanism?

Do the problems of production, wages, profit, and interest fall within the scope of ethical treatment, or are they governed by immutable economic law?

What are the ethics of property? How can we secure increasing harmony in our economic life? How can we avoid the major conflict of our time?

What are the ethics of bargaining? Are there "unearned" gains? What are they? What should be done with them?

How far can the present system be safely reformed as to its incentives, its supply of capital, its consumption, and its standard of exchange?

These are among the questions which the mature student of economics will insist should be discussed. No adequate presentation of the subject today will want to leave them out. Yet this volume, almost alone, seriously attempts their answer. It could well be used as a text-book in advanced classes, both in ethics and economics, and as collateral reading in elementary courses.

This treatment should also make its appeal to the thoughtful citizen who wishes to make his daily conduct pattern square with his ideal standard. Until some other writer pushes the inquiry farther into the ethical aspects of economics, this volume must inevitably be considered the standard work on the subject.

JEROME DAVIS

*Yale University*

# PREFACE

The endeavour in this book to trace and to express the relations between economic and human values, wealth and life, follows several lines of enquiry. One is concerned with studying the part which processes of production and consumption play in the determination of human welfare. Another deals with the changing attitudes adopted by economic science towards the demand that it shall take account of ethical considerations in its structure and method. A third treats the distinctively social aspect of the problem, the tendency of organised society to exercise a control of economic processes in the interests of equity, humanity, and social order.

The threads of these enquiries sometimes run separately, sometimes they are intertwined. In order to minimise confusion, I have made certain rather arbitrary divisions. Part I is chiefly given to an attempt to wrest from social philosophy an intelligible and consistent meaning for human value and welfare. Part II sketches the emergence of an economic science and its formal relations to ethics. Part III discusses the ethical significance of certain basic factors in the modern economic system, especially property and the processes of a market. Part IV deals with the crucial issues of industrial peace and progress in the light of modern humanism, with especial regard to the new problems emerging in a world becoming conscious of its widening unity.

The brief Bibliography given in the Appendix is, of course, wholly inadequate as an indication of the vast literature upon which readers might draw in profitable pursuit of the topics discussed here. I thought it well, however, to give prominence to a few works which I have found particularly serviceable in preparing the several chapters.

In conclusion, I desire to express my deep sense of obligation to my friends Maurice Adams, C. Delisle Burns, and R. H. Tawney, who were so kind as to read this work in manuscript and to offer me much serviceable advice in bringing it to completion.

J. A. Hobson

*London*
*February 1929.*

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# INTRODUCTORY

To perform with scientific precision the task of translating economic values into ethical or human values is manifestly impossible. For economic values in their first intent are quantities of money, while ethical or human values are qualities of life. Yet money and the economic operations for which money stands, and which money controls, play so important a part in human life as to compel students of humanity to attempt some orderly adjustment between the two sorts of value, some appreciation of economic valuations in terms of the humanly desirable. In any such attempt it is well at the outset to realise the nature of the difficulties to be overcome, and the limits within which we must work in any humanist evaluation of economic processes. To pass from monetary to vital values involves several distinguishable movements. Money values must first be translated into the concrete saleable things, the goods and services, which prices, or any sort of payment or income, express. These goods must then be resolved into their net costs of production and their net utilities of consumption. By costs we signify, of course, not money costs, for that would be retracing our steps, but the wear and tear and disagreeable exertions incurred in the productive processes. Some of this costly wear and tear is that of human beings, some falls directly upon nature and non-human instruments. But, since the task of replacing the non-human wear and tear falls mainly upon man, we may speak of 'costs' as human costs. I use the term 'net' costs, because in many human productive processes there are elements of enjoyment, or utility, as well as of cost,

which should be taken into due account. So likewise with the 'utility' or enjoyment of consumption, there is often a debit account from the pains or injuries of 'illth', misuse, and excess.

This expression of economic values in 'subjective' costs and utilities does not, however, carry them on to the plane of ethical or human evaluation. For these costs or utilities register actual gains or losses as they operate in the economic system on a valuation based on current desires and estimates, which may not be reliable indices of the desirable. Thus some further adjustment is needed to assess the desired in terms of the desirable. Nor is the process yet complete. Even when we have got so far as thus to resolve monetary wealth into its equivalent in human value, we have not finished our task. For in following our economic path we have ignored the interactions that everywhere and always take place between economic and non-economic functions and activities in the human organism.

Ultimately the goods which are the concrete expression of money values must be evaluated by the total effects which by the terms of their production and consumption they exert upon human personalities and communities regarded as organic wholes.

All these steps are necessary to pass from economic wealth, as rendered by money, to human welfare — the ethical test and goal. And all these early steps, as we shall see, are slippery. Magnificent plungers like Ruskin may impose arbitrary meanings upon 'wealth' and 'illth' and bring whole civilisations to a grand assize. But those who rely upon calmer reasoning will have to test each step and make good the footing. It may, indeed, turn out that some of our difficulties are in a strict sense insuperable. One or more of these steps may be impassable. The strictly subjective element in personality may baffle all computation of concrete wealth in human welfare. The relations between economic

and non-economic factors of welfare may evade observation and record.

To certain of these difficulties inherent in the material of our enquiry I will return a little later. But some characteristics of such an enquiry are attributable to the mentality of the enquirer and his approach towards his subject-matter. A disinterested attitude of mind and a 'dry light' are often claimed as indispensable conditions for scientific study. Now a good deal of misunderstanding will be avoided if, at the outset, we recognise the limits to the attainability of these conditions in such an enquiry as we are here entering. Even the most rigorous of behaviourists finds it difficult to observe and plot out human actions in a perfectly dry light of objectivity. No individual or social psychologist can hope to handle the psyche for his subject-matter, without importing into his handling some of the prepossessions or emotional valuations which have entered his personal experience and helped to mould a mind which is not a merely reasoning apparatus but is suffused with feeling. There are, no doubt, large fields in history or sociology where the ordering and interpretation of facts may be conducted with a high measure of strict objectivity. But when we are concerned with the ethical evaluation of any sphere of current conduct, whether in the field of private morals, in art or literature, in business or in politics, strict disinterestedness becomes impossible, and its claim a foolish pretence. In particular the field for our investigation here is thickly sown with emotional disturbers, reflecting the particular interests, leanings, valuations, and attachments that have come, for the most part unconsciously, to mould the valuations with which the investigator must approach his task. At first sight this may seem a counsel of despair. If every observer sees his subject in the light of his unique private interests and prepossessions, we may get as many different social philosophies as there are members of society. But the fallacy of this judgment is

obvious. It ignores the uniformity of human nature, the solid fact that all men, in their constitution of body and mind, and in their natural and spiritual heritage and environment, are much more alike than unlike, though the unlike element is so much more interesting as sometimes to obscure the like. So the subjective character of our investigation will be in the main the common character and not the particular bias of a personal character and expression. This is the valid assumption for the possibility of any social science. But it would be idle to ignore the fact that, in the observation and interpretation of the modern life of man in any interesting field, it is essential to make due allowance for the *milieu* in which the mentality of the observer and interpreter has been formed and by which it must be sensibly affected. For only in this way can allowances and discounts be applied, so as to enable 'disinterested' students to get the greatest common measure of objective truth from the sources of their study. Though, naturally, no man can clearly appreciate his own personal biases of opinion or interest, he can sometimes, by memory and reflection, recognise the moulding influences to which his mind has been subjected, and realise the ways in which they must have influenced his approaches to the problems of his time.

These general reflections have, I think, a special bearing upon the task here undertaken. For the period roughly described as the Eighties, in the last century, was of particular significance in moulding the thinking of those who now form the older generation of sociologists and economists in Great Britain. Many movements and events conspired about that time to break up the complacency of the mid-Victorian era of peace and prosperity. The collapse of English agriculture had begun, and the flocking of populations into town life was helping to force into prominence the 'slum' problem. Though real wages were still rising for the great majority of regular workers, the plight of the unskilled and casual labourers was

beginning to get upon the nerves of the nation. Up to the Eighties, the fiercer indictments of the capitalist and machine system of industry, whether from the pen of litterateurs and preachers, such as Dickens, Carlyle, Ruskin, Kingsley, and F. D. Maurice, or as echoes of continental socialism, had no strong influence upon the mind, either of the educated classes, or of the newly organised workers. An authoritative science of Political Economy was believed to have established a body of laws which governed industrial life, producing and distributing wealth by necessary processes which could not be disturbed without disaster, and which were not amenable to ethical criticism. The friction in their working, the individual poverty and misery, gave opportunity for duly organised charity. Though the penetrating eloquence of "Unto this Last" and "Munera Pulveris" was making its influence upon many sensitive minds, the 'common sense' of our successful classes rejected all such ethical and emotional appeals as purely 'sentimental'. The educated workers and their leaders were too much absorbed in bettering their local trade conditions by collective bargaining to pay serious heed to socialistic theories or revolutionary policies.

Though we were conscious that the poor were always with us, the recognition of poverty as a social disease, demanding social treatment and capable of remedy, came upon the wider mind of England as a discovery of the Eighties. The revelation of poverty in our metropolis then first forced itself upon the imagination and sympathy of the well-to-do. The social work of the newly formed Salvation Army, the "Bitter cry of outcast London", the foundation of Toynbee Hall, the first Social Settlement, followed closely by the great survey of London, organised by Charles Booth under the title, 'Labour and Life of the People', marked the stirrings of this new spirit of compunction and social responsibility. Slum investigation and schemes for what was called in humorous pomposity, 'the amelioration of the condition of the

working classes', became the order of the day among 'public-spirited citizens'. In 1885 an Industrial Reconciliation Conference, with Sir Charles Dilke as President, two Cabinet Ministers as Vice-Presidents, and an attendance of men eminent in economics and business life, with delegates from trade unions, cooperative societies, and other working-class organisations, met to discuss an issue, thus stated by the leader of English positivists, Mr. Frederic Harrison, himself an ardent reformer.

"What are the best means, consistent with equity and justice, for bringing about a more equal division of the accumulated wealth of this country, and a more equal division of the daily products of industry between Capital and Labour, so that it may become possible for all to enjoy a fair share of material comfort and intellectual culture, possible for all to live a dignified life, and less difficult for all to lead a good life?" Among the speakers at this conference the names of Mr. Arthur Balfour, Sir Thomas Brassey, Professor A. Marshall, Dr. A. R. Wallace, Professor F. W. Newman, Mr. Benjamin Jones, and Mr. John Burns stand as representing a wide variety of outlooks. The last of these gentlemen appeared as delegate of an organisation with the new and significant title, 'Social Democratic Federation', at that time the most energetic of several groups of avowed 'socialists', the products of the early Eighties, who arose to press their gospels upon the opening minds of sensitive intellectuals and class-conscious workers. Of the several distinguishable schools of English socialists, this S.D.F., with Hyndman, Burns, and Champion for their spokesmen, derived directly from the continental fount of Marxism, though Marx, be it remembered, lived in England and based his work upon studies of English capitalism. The shortlived 'Socialistic League', with William Morris for prophet, Belford Bax for philosopher, appropriately represented the anarchistic strain which closer study of state-socialism always evokes.

Christian Socialism once more raised its head under the Guild of St. Matthew, while last, not least, the year 1884 marked the birth of the 'Fabian Society', followed a little later by the publication of 'Fabian Essays in Socialism', to which George Bernard Shaw, Sidney Webb, Graham Wallas, Sydney Olivier, and Annie Besant were leading contributors. Henry George's 'Progress and Poverty', published in England first in 1881, supplemented the attacks on capitalism by an attack on landlordism which became an economics, a politics, an ethics, and a religion for many simple-minded enthusiasts, especially in our large cities, with their swelling ground-rents and abounding slums. The great strike in the London docks in 1889 dramatised the situation of the underworld of East London and the demands of 'unskilled' labour.

As yet the attitude of these schools of social reform and criticism towards government and Parliament was vague and hesitant. The notion of capturing the political machine, though present to Fabian tactics, had as yet scarcely presented itself as practicable to trade unionists or revolutionary socialists. The Scottish Labour Party, however, took shape in 1888, followed five years later by the foundation of an 'Independent Labour Party' in England, avowedly socialistic in its economic policy.

The spirit of moral revolt, the appeal to justice and humanity, which took such various forms in the activities of this era, was by no means without its influence upon the academic economics of the time. The breakaway of Jevons from the cost theory of value, in favour of an analysis of demand which made the utility or satisfaction of the consumer the standard and determinant of economic values, was a marked advance towards the humanisation of economic science. But though Jevons's claim "to treat Economy as a Calculus of Pleasure and Pain" (imperfectly applied in the actual development of his theory), digs below the harder concrete wealth of the classical economists, its too separatist

treatment of human motives and desires, and its failure to give an equal recognition to 'costs' in his utilitarian calculus, were serious limitations in his work, regarded from the standpoint of ethics. More significant was the claim of Marshall, the great Cambridge economist of this period, in the preface to his Principles of Economics [1] which was to be the leading text-book of English economic teaching for a generation, that "ethical forces are among those of which the economist has to take account." [2] And throughout his work and those of most of his associates and followers, there is found a recognition, sometimes even a parade, of ethical considerations. They enter in two ways. First, as motives in modification of the crude greed and selfishness imputed to 'the economic man'. Altruistic motives, so far as they are operative in economic conduct, must evidently be taken into due account, as economic factors. But another ethical consideration is a wavering recognition that the operations of the economic system, as expounded by its science, do not conform adequately to the dictates of reason, justice, and humanity in the apportionment of labour and the fruits of labour. I speak of it as 'wavering', in that such recognition of unfairness appears to have been held consistent with the view that the laws of economic distribution are inevitable in their working, and are in their normal operation sound as tending to reward every producer according to 'his worth'. In other words, what condemnations of the hardships and injustices of current industrialism appear in the authoritative economics of this period were not incorporated in the structure of the economic theory, but were of the nature of *obiter dicta* or qualifying reflections.

This brief account of the ferment of the Eighties in action, thought, and sentiment, may help to explain the temper and attitude of mind with which a young thinker of that time, unconscious of any *parti pris* or closer class or intellectual

[1] First published 1891. [2] *Principles*, p. x.

bias, might naturally approach the economic institutions of his time as a subject-matter for understanding and for human valuation. With such independence of judgment as he could command, and applying such powers of criticism as the study of economic processes evoked, he might reasonably be expected to make two approaches to a fresh criticism of the social-economic system. These approaches may be thus expressed as propositions of distinctively ethical import. The first is that the payment made to any contributor to the productive processes, either as a worker with hand or brain, or as owner of any other factor of production, is not determined to any appreciable extent by the nature of the particular contribution he himself makes, but by an operation of the market in which the contributions of innumerable other persons and processes are taken into account. This may be called the doctrine of the social determination of values. Put simply, it signifies that what anybody gets for what he does depends to a very small degree upon his own effort, skill, or other personal merit, and almost wholly upon the actions of other people who either make what he is making, or make other things wherewith to buy what he is making. Though economists had long ago recognised this interplay of supply and demand in fixing prices, they had failed adequately to realise its moral implication, continuing to treat the individual producer as if he held his economic fate chiefly in his own hands.

A second proposition follows from the social determination of value and of price, viz., that the distribution of wealth and income thus brought about is inequitable and economically wasteful. This truth emerges from any close examination of the various processes of bargaining between buyers and sellers. The unfairness and the waste do not represent 'friction' or any minor defect in an operation that is normally or generally sound, but are rooted in the nature of the bargaining process which apportions the gain of the bargain, not ac-

cording to the merits or needs of the parties, but according to the economic strength of their position. Since the actual distribution of the product of industry was implemented by contracts, sales, or other acts of bargaining, the unfairness and the waste emerging in the several processes of bargaining passed into the general process of distribution. On enquiring into the conditions of buyers and sellers in the various markets, not only for the sale of goods but of services, the sale of labour-power in all its grades and kinds, but also the sale of the productive power of capital and the natural resources of the soil, startling examples of the normal inequality of bargaining came to light.

The question one put to oneself at this stage of the enquiry was, 'How can it have come about that to ordinary business men, and to economists, this normal and general defect of the distributive process escaped recognition?' The answer, it seemed, was to be found partly in the selective and defective nature of the charges brought against the operation of the economic system by hostile critics, partly in overrating the policy of competition. The socialist analysis, which concentrated upon the power of the employer to purchase labour on terms enabling him to appropriate 'the surplus value', as the sole source of economic injustice, without discriminating between interest and profit, without allowing for any collective resistance on the part of labour, and without allowing for the effect of competition among employers in reducing prices and handing over to 'consumers' their initial advantage in buying labour cheap, rightly failed to carry conviction to those familiar with the actual operations of the business world. Wholesale assaults upon profiteering in industry could not command assent among those who knew how narrow was the normal margin of profit in most businesses, and how many were the failures. Still less convincing was the attack upon the private ownership of land, with its power to rack-rent the entire industrial community as the *fons et origo malorum.*

It was easy for Mr. F. A. Walker and other economists to prove, by naïve reliance on the logic of competition, that capitalists, employers, and in some instances even landowners, could not hold the gains they seemed to make in bargaining with wage-earners or tenants, but must hand them over to the residuary legatee, the consumer.

Now the notion that the gains of industrial progress do and must by an inevitable process, in spite of friction, and the exaction of monopolists and landlords, pass to the consumer, is still the prevailing creed of the business man, so far as he entertains any central economic creed, and the economists still give it their general adhesion. But not until we realise that the consumer, as such, has no claim to figure at all in the problem of distribution of income, can we clear our minds for a right statement of the issue. Income is divided among the producers of wealth, i.e. among those who, by their personal efforts, or the services of the natural resources or the capital goods they own, contribute towards its production, and the problem of distribution is exclusively confined to the terms of apportionment of the income between the various contributors. Whether the recipients, workers, capitalists, employers, landlords, etc., consume, or save, or waste, the goods which thus pass into their possession, is a different problem, and should not be confused with that of the distribution of wealth or income. For, until this irrelevancy is cleared away, our mind is not free to concentrate upon the nature and conditions of the bargaining process as distinct from the particular cases of that process. Only by recognising that economic force, whether rooted in natural or contrived scarcity, in fortuitous circumstances, or in power of 'holding out', is normally operative in all markets for the sale of goods or services, as a determinant of the distribution of the gains of buying and selling, can we approach an ethical estimate of the working of the economic system. For only thus can we get into our minds the clear distinction between those ele-

ments of income which are distributed equitably, rationally, economically, and those which represent inequity, unreason, and waste. This vital distinction between the payments necessary for the maintenance and efficient functioning of the factors of production, and any surplus over and above these personal incomes, is seen to be essential for any reasonable policy of social-economic progress. The highly composite structure of this surplus, flowing, as it does, from so many different sources, while releasing it from the simpler diagnoses of profiteering or rack-renting, makes it difficult of sure detection or precise measurement in an economic system where exactitude and publicity of costing and accountancy still leave so much to be desired. The post-classical economists in England, America, and elsewhere, were, of course, by no means blind to this distinction between costs and surpluses. Marshall, in particular, evolved a doctrine of quasi-rents to cover the gains from temporary scarcities of supply in markets. But, apart from the fact that there was in most instances no 'quasi' in these scarcities, which yielded rents as real as land, and often as lasting, there arose the defence that these temporary gains were necessarily stimuli in the utilization of productive resources, or in other words, that they performed a useful social service.

By such reasoning the dawning ethical distinction between costs and surplus was blurred, and the distinction between the incomes which represented payments necessary to evoke and maintain personal efficiency in productive services and the social surplus needed to maintain and enrich the community, was lost. But not wholly lost. Recent evolution of taxation in most modern states is based half-avowedly upon a recognition that there are funds of excessive or 'unearned' gains, passing into individual incomes, which can be diverted into public revenue without injurious reactions upon personal efficiency and productive effort. Modern experiments in progressive taxation of incomes and in heavy

inheritance duties, though usually defended on general grounds of 'ability to pay', are based in the last resort upon the fact that large amounts of wealth normally pass into the possession of persons who do not require or use them as supports for productive services.

But the full ethical significance of this radical distinction between personal costs and social surplus has been very slow to win recognition, though it is the true starting point for any ethical advance in the interpretation of economic values.

While, however, such an analysis of the processes of bargaining is a necessary revelation of the fundamental unfairness which underlies the apportionment of this world's goods, it does not carry us very far towards the completion of our task of human valuation. The further steps indicated in our opening pages still remain to be traversed. The stress laid here, as elsewhere, upon the processes which distribute the goods and services that constitute the real income, insensibly subordinates the costs and utilities of production to those of consumption, whereas the organic structure of man and of society demands that both should count equally and in mutual interaction. This truth, obvious in a 'Crusoe economy', is apt to be lost sight of under a division of labour where the mind of each man is directed more to what he is to get than to what he is to give. Yet it is quite evident that a disinterested valuation of economic processes must, in estimating incomes, devise some way of setting the net human costs of earning the income against the net human utilities of spending it, and in doing so, must recognise that the ways in which it is earned and spent mutually interact and affect the organic welfare of the man.

The term 'Organic welfare' should, I think, readily win acceptance as the criterion of economic values even among those disposed to distinguish ethical from biological values. For, in the first place, most economic activities are definitely directed to the survival and development of the physical or-

ganism of man. In the second place, the adjective 'organic' has a wider acceptance than the substantive 'organism'. For most of those who jib at a 'social organism' will admit that a society is 'organic', by virtue of its 'organisation'. What is essential is the recognition that the elements in human welfare are organic in their relationship. The failure of most economists to give proper recognition to this truth explains the curious aloofness of the place occupied by economics among the social sciences, as well as the mistrust which ordinary men and women feel for the policies and practical advice that issue from the authoritative economists. The utilitarianism is too crude, the logic too absolute.

The organic treatment of economic values finds its field of operations in the arts of production and consumption. From the organic standpoint the subdivision of labour, by which each man in a society devotes the whole of his economic activity to some single process, appears to stand self-condemned. For man as an organism was manifestly evolved for and by the integrated use of all his organs in a large variety of activities conducive to personal and specific survival and growth. An exclusively economic analysis of production shows us "shredded man". The heaviest human indictment of our current economic system rests upon this charge. That man is not utterly destroyed by this economic assault upon his human nature is due to certain resistances, alleviations, and compensations, that lie outside the strict sphere of economic production. Larger leisure with its opportunities for gardening, carpentering, and other 'relief works', for the organic satisfactions of games and sport (pleasurable imitations or adaptations of primitive activities no longer needed) and for the inclusion of other active operations upon what is deemed the spending or consuming side of life, are more or less effective offsets to the dehumanising effect of specialised production. So far as our valuation finds it convenient to retain the distinction between pro-

duction and consumption, its human computation of production must evidently include many organic activities that lie outside the income-earning class and are in a sense self-chosen to satisfy thwarted or neglected organic needs.

But if human welfare on its productive side thus requires the importation of strictly non-economic activities for its organic interpretation, so likewise with the art or activities of consumption. The organic view of consumption puts its emphasis upon standards or harmonies. The crude analysis of separate articles of diet, clothing, etc., with separate utilities that diminish with each added unit of supply, loses its significance in view of the interaction of the diverse ingredients of welfare involved in the organic composition. Moreover, as on the productive, so on the consumptive side, distinctively economic consumption is merged with, and affected by, other non-economic factors, the conception of a standard of living being replaced by that of a standard of life. Again, the interactions between the productive and consumptive activities will become more intricate in proportion as life is realised as a fine art. For a fine art differs from other activities in fusing the processes of production and consumption, effort and enjoyment. Thus a human or organic valuation of economic processes will be continually traversing the distinction of production and consumption, substituting more and more the distinction between the negative value of human 'costs' and the positive value of human utilities or satisfactions. It will thus approach closer to a biological conception of human economy, without necessarily admitting the supremacy or sufficiency of the biological standpoint. For all serviceable organic activities consume tissue and expend energy, the biological costs of the services they render. Though this economy may not correspond in close quantitative fashion to a pleasure and pain economy or to any other conscious valuation, it must be taken as a groundwork for that conscious valuation. For most eco-

nomic purposes we are well advised to prefer the organic test to any other test of welfare, bearing in mind that many organic costs do not register themselves easily or adequately in terms of conscious pain or disutility, while organic gains also are not always interpretable in conscious enjoyment. Even, therefore, for those who insist that all human values must ultimately be expressed in terms of individual consciousness, it is better to accept the organic criterion as provisionally serviceable. For there is this supreme advantage in this acceptance that, so far as the organic welfare is adopted, it minimises, though it cannot eliminate, the personal bias in the valuer. For the longer we can put off trying to value states of consciousness, confining ourselves to behaviour, so much the better. If, as I hold, it is impossible to rest on a purely behaviourist basis of interpretation, it is none the less good to proceed along that basis as far as it is practicable. This course enables us to enter and explore without final committal another of the great social problems that have a peculiar interest for economics, the structure and function of the community. For, postponing for the time being the heated question whether there exists a group-mind, and if so, in what sense, we may consider the community, not as a mere aggregate of individuals, but as an organic structure with a life 'of its own' both on the producing and consuming side, and a harmony of practical activities supplementary to the individual economic harmony. The relation between this communal and this individual economy will be one of our most fruitful fields of exploration, involving, as it does, the critical issue, how far community and its institutions exist for, and are to be valued exclusively by, their contributions to the human welfare of the individual, or how far they have a life strictly communal with costs and utilities not thus resolvable. From the economic standpoint the importance of this issue lies in the consideration how far distinctively social activities are productive of wealth, either

indirectly in sustaining the economic order and heritage, or directly, in organised public services, and how far these public services can undertake to supply certain human needs which cannot safely or properly be entrusted to private profitable enterprise.

In our provisional acceptance of an organic test or standard of value there may, however, lurk some misunderstandings due to the too closely materialistic and biological associations of the term. For example, in estimating economic costs and utilities by their contribution to the organic welfare of individuals and communities, we are confronted by the question how far the actual economic conduct, with its accompanying desires and gratifications, can be taken as a safe index of the desirable or organic welfare in its true sense. In dealing with the life of ants and bees, we seem able to eliminate the fact or possibility of error by the completeness of the organic integration that appears in all their actions. But when conscious choice and the beginnings of reason take direction of behaviour, as in the higher primates, the correspondence between the desired and the desirable is no longer accurately assured. Error is possible. It may, indeed, be claimed that error is not really eliminated by the specific instincts of automata; that, on the contrary, this lack of adaptability to environmental changes exposes them to perils of extinction, with which the conscious central guidance of the brain enables the higher animals to cope. But this diffusion of error in the conduct of the higher animals, man in particular, does not relieve us of our difficulty. On the contrary it increases it. For, whereas errors in the life of instinct are few and fatal, in the life of the reasonable animal, man, they are many and often not evident. Applying this general truth to our special theme, the human valuation of economic processes, we cannot assume a full identity of the income of an individual or a community, expressed in terms of current satisfactions, with that income expressed in

terms of human welfare. Nor is the difference to be accounted for only by consideration of the distribution of the toil of production on the one hand, of the satisfaction of consumption on the other. The total process of consumption-production may contain large elements of human waste or error, in that the tastes, desires, and satisfactions which actively stimulate this wealth-creation may not conform to the standard of the desirable. Here lies the supreme problem of humanity, at once ethical, intellectual, aesthetic, how to integrate the capacities of man, as a social animal, so as to enable him to make the most of a life that consists in the progressively complex control of an environment which, by the very expression of this control, is calling forth and educating new cooperations of inborn capacities. This actively changing human nature, with its changing activities, cannot be regarded as completely expressing in its actual desires and conduct the human welfare that may be accounted as the pattern to which it would conform, if it were more moral, more intellectual, more aesthetic than it is. Nor are we warranted in taking a static view of the desirable, or of the hierarchy of values that expresses it. Regarding evolution alike in its material and spiritual aspects as motived by directive urges that constitute a general purpose, and unable to accept T. H. Huxley's divergence between biological and ethical process, I am bound to regard the actual normal conduct and desires of man, whether he be considered as animal or as *homo sapiens,* to be in general conformity with the ethically or humanly desirable. His 'sapience' thus will be directed, partly, to correcting the errors due to his incompletely integrated 'nature', partly, to those changes in the standard of the humanly desirable welfare, due to a clearer vision of a wider, longer, and more complex life for man. There are those to whom this vision of a higher life signifies an evident subordination and depreciation of the simpler animal desires and the activities that gratify them, in favour

of the cultivation of intellectual and spiritual goods, regarded as 'disinterested' in the sense of being devoid of biological utility.

The hierarchy of values for which these votaries of the higher life contend will be defended on the not unreasonable ground that, whereas the body is with us all and always, and its claims cannot be shirked, the life of the mind in its higher levels is only known to the enlightened few. Groundlings and sensualists cannot be entrusted with a comparative estimate of values, of most of which they have had no experience. The aristocracy of culture are thus self-designated for the delicate task of translating what is roughly termed 'human welfare' into a changing hierarchy of values, in which things of the body and the mind take their appropriate places. But this is less convincing than appears at first sight. For how if the pride of the intellect and spirit, the excesses of the mental life, induce a disparagement of the normal sensual life, from the manual labours and the attendant physical enjoyments of which they are so largely removed? Commonsense has always distrusted, perhaps with instinctive wisdom, the withdrawn life of the ascetic and the scholar, partly, no doubt, because they do nothing he calls work, partly, because their positive ways of life are to him mysterious and crazy, taking them out of all social sympathy. When it is added that many such lives in these days require a physical equipment that is economically costly, the charge of parasitism is added to the general suspicion. Such mistrust cannot rightly be dismissed as mere ignorance and superstition. The common sense which it expresses may in this, as in other matters, have survival value. For the exclusive possessors of intellectual values must be accredited with a disposition to overrate them and to underrate the material and popular values in forming their conception of a desirable life.

It is precisely this unsound division, between the withdrawn and over-cerebral life of the cultured few and the

materialised extrovert life of the labouring many, that makes the problem of social progress so baffling. For until the commonsense of the many has shed its crude suspicions and is in some measure intellectualised, while the dangers of excessive introversion are better recognised by our intellectuals, there cannot be any well-accepted valuation of the humanly desirable life. Indeed, there lurks under the whole process of such valuation an initial problem, that of giving a value to life *per se*. This is far from being a mere academic question. It is the very essence of that Population Question which in its various forms of birth control, racial selection, immigration, everywhere presses for an answer. Apart from the divergent views of optimists and pessimists, and the changing estimation which all of us would register at different ages and states of health, there is the problem as it presents itself to economists, of a scale of comparison between quantity and quality of life, imposed by a so-called Law of Diminishing Returns. Who shall say whether one Darwin or Mozart is worth as much as a hundred million happy Negroes? Who shall give their respective valuations in human worth to Nordics and Mediterraneans, to the many different types generalised as Indians or Chinese, when the question is one of immigration? Everywhere the alternative is set between How many lives? and What sort of lives?

With the new significance given to internationalism and world policies in our age this problem of vital valuation bulks even bigger. The security of civilisation demands, if not a solution, then some generally acknowledged method of adjustment. For force, the enemy of reason, is still entrenched in an exclusive nationalism which rejects any wider standard of human values, each nation framing its own hierarchy with itself as supreme head and arbiter. The cosmopolis, which economic mutuality of interests has been building with so much elaboration of commerce and finance and such intricacy of dependent processes, has shown itself

too international, in the sense that nations as political and racial organs have set themselves to regulate the economic intercourse of the world by methods and for purposes not dictated by considerations of the general welfare of the world community, but by short-range calculations of separate national advantage. It is just here that the supreme peril of our age is found, an over-conscious nationalism inflamed with war-pride and passion, and turning in peace-time to rivalry in economic policies as expressions and instruments of national power. Economic internationalism, moulded by such national and imperial urges, inclines to new balances of power in which the welfare of weaker peoples is subjected to the selfish ends of the stronger, either by a continuance of imperialist rivalry for the control and exploitation of backward countries, or by some development of inter-imperialism designed to allay the class-struggle within the civilised nations by a new alignment of the economic forces in the world, based upon a federation of western peoples controlling the peoples and resources of the rest of the world. The recent experiments in international organisation of capitalist interests in important industries and sources of supply are making in this direction, and the economic organs of a League of Nations, constructed by and for the great Western Powers, may lend valuable aid to a project which will easily present itself as the most reasonable method of securing the development of world-resources for the benefit of all the peoples.

There are, however, those who deny the feasibility of such a project, finding an inherent contradiction in the operation of this economic inter-imperialism. The contacts between the advanced and backward peoples, involved in this projected exploitation of the latter, the organisation of their labour for efficient production, the unavoidable penetration of Western political ideas and movements, the general fruits of education, improved intercourse, the establishment of little master communities with all the equipment of Western

civilisation, the deliberate education of new native wants for the benefit of exporting manufacturers at home — these various influences are found to unsettle raw minds, produce unrest, suspicion of white rule, nationalist movements for political and economic self-government, the familiar troubles in India and China to-day.[1]

In such a brief survey it is impossible to do more than state in barest shape the distinctive ethical nature of this widest movement of our time. For behind the tangle of business and politics in which international relations are involved, lies the moral-intellectual issue which Mr. Zimmern sets out with so much insight and knowledge in his essay on "Learning and Leadership",[2] viz., the possibility of "adjusting the available resources of good-will, expert knowledge and intellectual and moral leadership to the needs of the post-war world." The main obstacles are quite apparent; they are the nationalism compact of pride and fear, and the intra-national group economic interests bent on utilising rival nationalisms for their private gain. The initiative commonly is taken by the latter, that is to say, active national and imperial policies are usually made and directed by business men who know better what they want and how to get it than do politicians. If this view be correct, it signifies that "the race between civilisation and catastrophe" can only be won for the former by the assertion of moral and intellectual supremacy in the business world. This high-sounding generality signifies, however, a good deal more than 'common service' and 'common honesty'. It signifies on the intellectual side, a knowledgable understanding of the elaborate and ever changing play of facts and forces throughout the economic system, recorded by reliable methods and with full and quick publicity, and the best facilities for cooperation

[1] For an expansion of this thesis cf N. Pfeffer's *The White Man's Dilemma.*

[2] Oxford University Press, 1928.

in the search for improved technique and organisation and for the communication of such improvements, irrespective of political boundaries. On the moral side it signifies a softening of heart, an extension of honesty into generosity, through a cultivated sympathetic understanding of the needs and rights of others, irrespective of the barriers which enclose the areas of our directly personal experience.

Nationalists sometimes have contended that there can be no general will, or communal spirit, outside the limits of the country in which we live, move, and have our being. And for mere groundlings and materialists there is force in this contention. But it is the function of education, the cultivation of the intellectual life, to supplement our own directly personal experiences by the experiences of others communicated by records and interpreted by imaginative sympathy. Facility of travel and accessibility to diverse sources of foreign knowledge, and the creative achievements of many minds in distant times and places nourish a morale, a humanism far wider, more refined, and more intense, than was possible even for the best natured man in former times. But opportunity is not enough; the desire and will to use opportunity are essential. This is where education comes in — to make the world so interesting, upon its human side, history so rich, the current interplay of human motives and activities throughout the world so intelligible and so appealing, that even nationalism shall get its finest flavour from the sense of its peculiar contribution to the wider life of humanity.

Whether or how far such an education, directing human processes of valuation, may be possible, depends on the degree to which the subordination of the economic processes to other conditions of a desirable life can be effected. For those who rightly present the economic system as one in which individuals cooperate for their common good are apt to overstate the moral case. So far as 'the common good' emerges, it is mostly resolved in consciousness into a number

of individual goods. What each is after is his own good. Mitigated as this sense is by some realisation of community, it continues to be the chief obstacle to that wider, stronger sympathy necessary that civilisation on its modern plane may work. In almost all economic processes there are too many opportunities and temptations to greed, suspicion, fear, and other separatist feelings. While more equitable conditions for apportionment of work and wealth may help to replace this cruder egoism by some sense of cooperative purpose, the application of ethical standards of value to economic life will require a constant reduction in the part played by distinctively economic processes in the consciousness of man. This signifies, on the one hand, a standardisation, or reduction to low-conscious routine, of the ordinary processes of production and consumption; on the other hand, an organisation of industry based as far as possible upon the principle 'from each according to his powers, to each according to his capacity to use', so economising the industrial resources of the community as to liberate more and more of the time, energy, and conscious interest of its members for occupations, both individual and social, that lie outside the distinctively economic field. As for the finer productive arts which carry a surplus of pleasurable interest in their activities, while their organisation and the marketing of their products bring them strictly within the economic scope, the humanity of their appeal places them outside the venue of the sterner economic laws. The further the standardisation and reduction of costs in the industries which supply the common needs, the larger will be the leisure and the opportunities for the conscious cultivation of the arts that contribute to personal values.

This introductory survey exposes a field so vast and so richly varied in its contents that no limitations of treatment however severely imposed can enable us to render an intellectually satisfactory account. The writer can, indeed,

make no pretence to more than a superficial acquaintance with many of the subjects he is bound to recognise as coming within the proper scope of his enquiry. To many of the issues opened up scientific rigour is manifestly inapplicable. Indeed, it is doubtful how far the term scientific can be claimed for the central purpose of this treatise. There may be a science of monetary values, and therefore of economic processes so far as reducible to monetary values. But in human valuation we have no such quantitative standard of reference. It is not merely a question of divergent appreciations, the *quot homines tot sententiae*. The subject-matter to be valued is economic activities and products, not as they are in themselves, but as they are when transmuted into the psycho-physical organic processes of individual men and communities of men. Now the study of this effect of economic processes upon human life, however closely pursued with instruments of measurement, can never yield what a science means by definite results. Properly speaking, the human valuation of economics means the incorporation of economic activities in life as an organic whole, pursued, so far as it is capable of conscious direction, in the spirit of a fine art, the largest and finest in that it contains all that is included under art. But as every art is fed by science, or ordered knowledge, so this art of living draws sustenance from all the sciences. Hence one of the intentions of this work is to consider how far economic science is properly organised and directed to the understanding of economic processes from the standpoint of this human art, and how far these processes themselves are conducted so as to make their best contributive to that art. This is a task of criticism in its right meaning of discriminative judgment. But such judgments would be barren did they not contain at least the germs of constructive policy for the better assimilation of economic conduct to the art of human welfare, so far as this art embodies, as it does, an agreement upon the basic essentials to a good life.

# PART I

# STANDARDS OF WELFARE

# CHAPTER I

## THE HUMANIST APPROACH TO ECONOMIC LIFE

§ 1. The conception of an economic system bringing into orderly relations the activities of large populations, or even of humanity as a whole, is entirely modern. Though many special problems of an economic nature troubled the minds of thinkers from the early times of Egyptian, Babylonian, and Chinese civilisation, effective social contacts for any purpose were in general so narrowly localised, and economic so implicated with other motives and activities, as to render impracticable any clear abstraction of industry or business from the complex of interests and activities that make up human life. When under ancient despotisms labour was sometimes organised upon a large scale for the construction of public buildings, temples, palaces, roads, fortresses, or for the private households of the great, the conditions of such services, as well as their technique and uses, rendered them intractable to any distinctively economic analysis. As for the ordinary life of the people in any country, while most of their active energies were undoubtedly engaged in occupations readily recognisable as economic, in the sense that they were directed to secure the material requisites of life, they were so intricately interwoven with other interests and activities of the home and the family, so insusceptible of any measured valuation of cost or utility, as to preclude them from separate consideration in group behaviour. Not until barter became a regular and considerable practice, involving specialisation for a market, did the beginnings of an economic system arise. But so long as the cultivation of some patch of earth for a

livelihood remained the lot of the vast majority of the population of every country, the primitive communism of the family as a mainly self-contained system, satisfying most of its requirements by the voluntary or customary services of its members, gave a very limited importance to the market as a connective tissue of an economic organism. The rudimentary commerce of a society where nearly all the population grew virtually all their food, made nearly all their clothes, most of their housing, furniture, and tools within the circle of the family, renders all our modern economic concepts and laws inapplicable. Even when town life with its organised trades and markets put considerable sections of the population upon a closer basis of inter-dependence by division of labour, while regular employment on monetary terms extended the area of economic order, the family, never a distinctively economic unit, retained within its communistic circle many of the productive activities which later fell under the economic system, as we now know it. Not until, first in Great Britain, then in other Western countries, the transformation of means of transport and communication under steam-power had expanded, quickened, and cheapened the movement of goods, persons, and information, while the new machinery, utilising the same power increased enormously the output of manufactured goods, did the modern economic system take clear shape as a distinguishable objective being, and as an intellectual image in the mind of man. No more impressive evidence of this modernity can be obtained than that presented in Adam Smith's *Wealth of Nations,* where we confront a singularly powerful and wide-ranging mind in the act of assembling intellectually the hitherto detached pieces of economic observation and reflection, and welding them into some unity that stood out as an economic system. Even then modern economists recognised how imperfectly those analyses, principles, laws, which figure in their theory as distinctively economic, had been able to

separate themselves from the entanglements of custom, law, politics, and morals, which still hampered the play of the business activities of the age, limiting mobility of labor, growth of joint stock enterprise, and freedom of commerce.

§ 2. Not until the nineteenth century was well advanced, was the widespread reticulation of rapid, regular, reliable markets for commerce and finance extended through the civilised world sufficiently to bring the majority of its population within the compass of a single regulative economic system. That is, before the Industrial Revolution, economic were not sufficiently differentiated from other interests and activities to form the subject matter for a separate science.

The rapid transformation of material and social conditions both of work and life produced by the new machine and power economy, with its great increase in the productivity of labour, had two important influences upon the thought of the age. On the one hand, it gave substance and sustenance alike to the ardent rationalism of the Utilitarians who, under the leadership of Bentham and James Mill, sought to regimentalise all departments of private and public life by doctrines of enlightened self-interest for the achievement of "the greatest happiness of the greatest number", and to the more exuberant schemes and visions of Robert Owen and a considerable band of enthusiasts for socialism and "a new moral world." The most distinctive fruit of this utilitarianism in the realm of thought was the rapid rise of an authoritative science of Political Economy, which subjected the new industrial order to a rigorous analysis and professed to discover a body of laws and principles regulating the production, distribution, and consumption of wealth, as natural, necessary, and immutable, in their operation, as the laws of chemistry and physics. Although, as will appear from the fuller treatment of the rise of this Political Economy given in later chapters, these early economists commonly, and doubtless with sincerity, disclaimed the intention of furnishing a de-

fence or approval of the system which they expounded, their ranking of economic laws with the laws of physical science, in an age which prided itself upon the belief in the progress, or even the perfectibility, of human institutions, did actually serve to give a moral support to the new industrialism, its commerce and finance.

Thus it came about that the stream of criticism and denunciation, which poured forth during the nineteenth century, alike from the ranks of humanism and culture, and from the thinkers and agitators of the working classes, was directed equally against the wrongs and miseries of the new industrialism itself, and the science which seemed to be its intellectual champion. Although in more recent times economists have, as we shall see, been more careful to guard themselves against the imputation of favouring the processes they describe, or approving the laws they discover, we shall show reason for holding it true that the authoritative economic science of our day continues in the main to give intellectual support to the dominant economic practices, and to the system in which they are incorporated.

§ 3. If this be so, it follows that our task has a double aspect. On the one hand, it essays to study the relations of industry to life; on the other, the relations of Economics to Ethics, regarded as the science and art of human welfare. As we proceed, it will transpire that these are not really separate or separable issues. For in every inquiry into actual operations of industry, commerce, and finance, we necessarily encounter the theories, hypotheses, and laws which economists have formulated, either from facts or figures, or from *a priori* reasoning. If, therefore, we seek to assess any order of economic activity in the light of a wider human valuation, we bring the operation of some economic law to the test of ethics.

In the controversies of the nineteenth century waged around the new economic system the two issues were virtually

fused. The diatribes of Carlyle, Ruskin, William Morris, Kingsley, Maurice, as in the next generation of Tolstoy and Edward Carpenter, were equally directed against the barbarities of the capitalist machine and factory economy, and the intellectual 'imposture' which in the name of science furnished support to this economy. The intellectual assault upon Capitalism, led by Marx, Engels, Lassalle, and other 'socialist' assailants, largely with weapons selected from the 'classical' armoury, was equally directed against the system and the science, the latter being regarded as a creed expressly invented in order to safeguard and promote the interests of the 'capitalists'.

§ 4. Seeing that this controversy in its more modern and developed shape must largely occupy us in this work, it may be convenient here to set out, as simply as possible, the counts of the indictment which nineteenth century humanists and socialists brought against the 'capitalist system' as they saw it.

(1) The distribution of wealth, and of the opportunities of acquiring it, such as education, choice of work, access to land and capital, was unequal and unfair. Each nation was visibly divided into two classes, rich and poor, toilers and idlers, masters and serfs. The bargains and contracts by which goods and services were bought and sold were loaded with inequality.

(2) Selfishness was not merely the dominant practice but the accepted principle for all economic conduct. Each was to devote his mind and body to the attainment of his personal gain, in pursuit of which he was to get as much and give as little as possible.

(3) Industrialism built upon an ever finer subdivision of labour meant the degradation of the man. "It is not the labour that is divided — but the man — divided into mere segments of man, broken into small fragments and crumbs of life." "It is a sad account of a man to give of himself

that he has spent his life in opening a valve and never made anything but the eighteenth part of a pin." Free men were converted into servants of the machine.

(4) Competition was condemned as a wasteful and irrational process. No clear conscious order existed outside the limit of the separate business. The relations of businesses competing in a single trade or market, the relations of different trades in drawing on the general supply of capital and labour, were determined by blind fumblings, involving continual errors of over and under production. Where 'free' competition was obstructed, as by tariffs or combinations, the impediments were equally irrational and wasteful.

(5) Not only was man degraded in his work by the mechanical division of labour. Factory towns, mean, ugly, and unhealthy, poisoning the air and the water with the fumes of their chimneys and the refuse of their mills, were destroying the beauties of nature and removing the bulk of our people from wholesome contact with uncontaminated nature.

§ 5. For the most part industrialists went their way in complete indifference to these criticisms from literary men, moralists, aesthetes, and philanthropists. They were 'not in trade for their health', 'Business is not philanthropy', 'Business is business'. But defenders of Capitalist industrialism were not lacking. Though industry was best operated by intelligent self-interest, it was none the less the servant of the community. Its increase of wealth was not held by a small greedy capitalist class, but enriched the whole community. The cooperative spirit was implicit in the whole process. Capitalist production brought a constant enlargement of effective community, binding distant peoples in friendly advantageous intercourse. It was a liberal education in industry, responsibility, honesty, and thrift. Breaking up the remnants of feudal serfdom, it enlarged the liberty of man, gave him increased mobility and choice of work. The willing flow of labour into the factory towns proved that the

mechanic and the mill hand were better off and freer than the farm-worker. Machinery even found its aesthetic advocates. It was not base or ugly; as an expression of human skill and ingenuity, it was often beautiful and interesting in its appeal. Waste no doubt was found in the operations of the business system. But the new business organisation reduced waste. Nature, and human work conducted in more 'natural' conditions, were far more wasteful.

These were the chief heads of a controversy so multiform and so entangled in its issues that no settlement has yet been reached. It has indeed shifted its character with the more recent developments of the technique and organisation of industry. The size of the business unit is continually growing in the main branches of production and commerce: combination is everywhere displacing or qualifying competition; employers and employed are organised for negotiation or hostility: class-consciousness among the workers is accompanied and mitigated by a new consideration of what is termed the Human Factor in Industry, and by sporadic attempts to harmonise the interests of capital and labour: the intervention of the State, or municipality, either as entrepreneur, or as controller of the conditions of industry, is in every country a potent factor in industrial life. But in its essential character modern capitalism is not changed. The government and conduct of business remains for the most part in the hands of the owners of accumulated wealth or their appointed representatives, who acquire the premises, plant, and material appropriate to a manufacturing or other business, and hire for wages the labour necessary to utilise this 'capital' in order to produce profit. While then the economic system comprises many types of business and many sorts of activity which lie outside this definition of capitalism, the latter still remains so dominant as to make it the central feature in any attempt to assess economic activities and values in terms of human welfare.

# CHAPTER II

## THE MEANING OF WELFARE

§ 1. The gravest preliminary difficulty that confronts us in this task of relating economic activities and thought to ethical arises from a failure to get a sufficiently clear agreement as to the meaning of the term, human welfare. Alike by professional economists and by enlightened business men much has recently been said and written about the steps needed to bring the aims, methods, and results of human enterprise into closer accord with some ideals of human service, and the term 'welfare' has been freely used as the criterion of a sound economy.

But welfare may mean anything, from the most elevated conception of human character and destiny to the baths, refectories, and recreation grounds that figure so prominently in what is known as "welfare work". Now although all large terms in common use defy exact definition, it is none the less desirable to fasten some agreed and consistent connotation upon the key word to our enquiry.[1] We sometimes gain a little ground at the start by shifting from one term on to another that has acquired some conventional connexion

[1] Dr. Pigou, in the opening of his *Economics of Welfare,* informs his readers that "There is no need here to enter upon a general discussion of its (i.e. welfare's) contents." "It will be sufficient to lay down more or less dogmatically two propositions; first, that welfare includes states of consciousness only, and not material things; secondly, that welfare can be brought under the category of more or less." (*Economics of Welfare,* 1920, p. 10.) Both propositions are, as we shall see, disputable, while the refusal of a general discussion of the contents of welfare gives a needless measure of uncertainty to every one of the practical applications in Dr. Pigou's treatise.

with it. In any discussion of welfare a term that is bound to come up soon is value. And this term is evidently useful, even essential, to our purpose, because of the central place it occupies both in Economics and in Ethics. Our subject, indeed, may appropriately be expressed as that of the relations between economic and ethical, or human, values. And we may start upon our enquiry by premising that welfare consists of ordered, organised values. This, it may be complained, does not carry us far, for value seems an even vaguer and more attenuated concept than welfare. Yet we cannot clarify our conception of human welfare without some classification and assessment of those distinguishable elements to which the word 'value' is commonly applied. Indeed, it is not possible to avoid this path in attempting to relate ethics to economics. For Ethics is the science and art of human values, as Economics is of economic values.

This statement no doubt requires defence. For in the minds of many, perhaps of most, ethics is attached to a special class of values, designated moral, related to rights and obligations. "The distinctive character of Ethics," writes Maciver, "is that it is concerned with the question of ought, the question of right and wrong, good and evil." [1] But this Hebraic note, this limitation of 'ought' and 'right', has never been accepted fully by the ordinary man. 'You ought to have done the sum this way', 'You ought to keep your body still in playing the stroke', 'You ought not to wear this hat with that blouse'. Not only popular parlance, but popular thought and feeling, have always broken down the barrier between 'moral' and other criteria of conduct. Indeed, ordinary speech, even in its origins, attests a preference for æsthetics rather than morals as the principal criterion of value. 'Right' itself is of strictly æsthetic origin. 'Straight' and 'crooked' conduct have a stronger purchase on most minds than 'good' or 'bad'. No higher 'moral' approval is

[1] *Community*, p. 56.

conveyed than by the term 'a white man' — whiteness having here a fuller connotation than mere innocence. Beauty of character, the *schöne Seele,* is more than goodness. Greek thinking, especially as given in its master, Plato, saw the good life in terms of beauty, harmony, and grace.[1] As modern thought turns more away from the distinctively Hebraic conception of goodness, the same preference is discernible. Characteristic expression is given to this tendency in a recent essay of Professor J. S. Mackenzie who, discussing the conception of "intrinsic value" in the ethical scheme, says, "further reflection has convinced me that, if any single term is to be used to characterise it, Beauty (at least in the sense in which the Greeks used the term τὸ καλόν) is less inadequate than any other."[2]

But in point of fact neither Beauty, Truth, nor Goodness can claim a suzerainty over values. For, in the first place, they are distinguishable more as stresses than as objects, and, secondly, they do not among them exhaust the categories of human values. 'Good' admittedly has other than a 'moral'

[1] "Let our artists rather be those who are gifted to discern the true nature of beauty and grace; then will our youth dwell in the land of health, amid fair sights and sounds; and beauty, the effluence of fair works, will visit the eye and ear, like a healthful breeze from a pure region, and insensibly draw the soul even in childhood into harmony with the beauty of reason."

" 'There can be no nobler training than that,' he replied."

" 'And, therefore,' I said, 'Glancon, music training is a more potent instrument than any other, because rhythm and harmony find their way into the secret places of the soul, on which they mightily fasten, imparting grace, and making the soul graceful of him who is rightly educated, or ungraceful of him who is ill-educated; and also because he who has received this true education of the inner being will most shrewdly perceive omissions or faults in art and nature, and with a true taste, while he praises and rejoices over and receives into his soul the good, and becomes noble and good, he will justly blame and hate the bad, now in the days of his youth, even before he is able to know the reason why; and when reason comes in he will recognise and salute her as a friend with whom his education has made him long familiar.' "] (*Republic,* Book III, Jowett's translation.)

[2] *Contemporary British Philosophy,* p. 243.

significance, as when it is applied to health, luck, a hypothesis, or a portrait. Nor is 'True' of purely intellectual import, as it is applied to an eye, a measure, or a friend. 'Beautiful' may be predicated of a character, the solution of a problem, or a surgical operation. Nor can we accept the statement of F. H. Bradley that "goodness, beauty and truth are all there is which in the end is real", or Windelband's declaration that "Logical, ethical, and aesthetic values make up the entire range of the human value-activity which can lay claim to general recognition and the necessity of actual unconditionalness. There can be, as regards content, no further universal values beyond these three, because in these the entire province of psychical activity is exhausted." [1]

Such terms as 'real', 'universal', 'unconditional' only darken counsel, when we seek a clear significance for human values, as elements of Welfare. Nor can we assume without discussion that all values are purely 'psychical' in the sense of figuring in consciousness. A good digestion is one that never obtrudes into the consciousness of its owner. Nor does a good conscience. But shall we say that these are not values, but only conditions for the attainment of satisfactions which do emerge as conscious values?

§ 2. It is pretty evident that, at any rate for our purpose, it will be better to begin our search for values not in the high abstractions of philosophic thought but in the lower levels of human nature — the instincts, appetites, and behaviour of the animal man. This method recommends itself the more in that most economic 'goods', which we shall seek to correlate with human good or value, are devoted to the satisfaction of the physical needs of man.

We may begin lower down than man in the scale of organic life, and ask what are the simple 'values' or serviceable properties which Nature confers upon an organism. If we ask, 'What is an organism for?' there are those who will ob-

[1] Quoted by Inge in *Contemporary Philosophy*, p. 195.

ject that we have no right to assume a purpose. We will, therefore, content ourselves with saying that many organisms behave *as if* their activities were directed mainly to the maintenance of the species. In vegetable and animal economy on its lower levels the subordination of the 'interests' of the individual to those of the species is everywhere in evidence. Even in the more highly developed life of the ant or bee, where some considerable measure of consciousness may accompany the elaborate behaviour, the whole economy of the heap or hive is adjusted to the safeguarding of the community in the future, and instinctive sacrifices of the most rigorous order are performed by the individual members. It may even be questioned whether the survival of any single species can be regarded as a separable 'end', or 'interest', or 'value'. The elaborate inter-dependence of different species, genera, or orders of organic life in the economy of Nature — their competition, coöperation, or parasitic relations — may seem, indeed, to place value and purpose, if anywhere, in the total harmony of nature as a whole. Such speculations, however, would carry us too far afield. Here they may serve mainly as a warning of the difficulties which beset the search for value in its most general meaning.

A new line of value seems to open up when the members of a species not merely survive but develop, in the sense of gaining more complexity in structure and function for the task of dealing with their environment. How far the appearance of favourable variations, which are the germs of such development, proceeds from some directive activity driving matter to arrange itself in ever higher 'wholes', as General Smuts, with the support of a new school of evolutionary creationists, contends,[1] we need not here decide. Any statement upon this subject is better deferred until we consider more closely the composition of values in a personality and a community. Here we may best confine our-

[1] *Holism and Evolution,* Macmillan.

selves to the broad survey of an evolutionary process which presents a continually increasing surplus of organic energy over and above the requirements for specific survival. That surplus is increasingly available for the enrichment of the life of the individual organism. In the life of lower animals it is due either to variations enabling the animal to make a better use of its environment, by means of personal or group activities, or else to some favouring change in the environment itself, some climatic change, or the elimination of some 'enemy'.

§ 3. But the economy of human progress presents a new character, viz., the progressive conquest and adaptation of environment by arts capable of transmission and enabling man to utilise a growing surplus of energy and opportunity over and above the requirements for racial survival. With civilisation the individual becomes more complex in his activities and more conscious in their exercise. He comes more and more to have 'a mind of his own', interests and satisfactions which are the ingredients of what we call a 'personality'. But though, as man becomes more civilised, this mind of his asserts a paramountcy, the body does not allow its interests to be forgotten, and constantly reminds the most intellectual and spiritual amongst us that in the first and last resort we are animal organisms, and that the raw stuff from which all the human values — the elements of welfare — proceed — élan vital, libido, nisus, hormé, whatever name be given — is, in its make and conditions, more akin to the body than to the higher functions of the mind. Professor MacDougall gives adequate expression to this truth when he says, "The evolution of the animal world may properly be conceived as primarily and essentially the differentiation of instinctive tendencies from some primordial capacity to strive." [1]

'But', it may be asked, 'does value attach to a capacity to

[1] *Outlines of Psychology*, p. 113.

strive, to the instinctive tendencies that differentiate themselves therefrom, or does it only emerge when intelligence supervenes upon and in part displaces instinct, and when consciously purposive behaviour builds up personality and plans the 'good' of humanity'? 'Or', in other words, 'does value belong not to human activity, as such, but to the conscious satisfactions that accompany it, human happiness?'

§ 4. This brings us nearer to our crucial issue. How far does human value attach to activities as such, how far to the satisfactions that accompany activities? Personally I am inclined to identify Welfare and its values with conscious satisfactions, so rescuing Ethics from vague conceptions of self-realisation, in order to make of it a New Utilitarianism in which physical, intellectual, and moral satisfactions will rank in their due places. Activities, efforts, achievements, would in this economy be 'valued' purely in terms of the contribution which they made to the aggregate of conscious satisfaction, or human happiness. Not, however, necessarily the greatest happiness of the greatest number, for quality must also count in satisfactions. As J. S. Mill discovered, Utilitarianism must be so conceived and stated as to admit qualities of happiness. But this implies a standard of these values. What can that standard be? Each man's various and changing preferences? That subjectiveness spells intellectual chaos. We shall perhaps do better to seek our standard in the conception of man as a psycho-physical organism with various related satisfactions of its functions. Organic unity, the good life as a whole, personality in its wide sense, may best serve our purpose. But in thus stressing the organism as a standard of values, there is danger of over-individualisation. Welfare, it may be said, is thus made a merely individual concept, and 'social welfare' is denied any real significance. But though the question of the possible extension of organism to a society or community cannot be evaded, and the 'organic' or 'organised' relations

between the members of a society must have some real bearing upon welfare, this does not debar us from beginning our attempt to build up a standard of values upon the basis of a psycho-physical organism. In all organic life there is a limited amount of transmitted activity, or urge, capacity to strive, directed to secure the survival and growth of the individual and species. It belongs to the economy of this struggle that some direction of the several instinctive urges and desires in the interest of the organic whole should be exercised. This directive control, so far as it is conscious, is some thin form of 'reason', and it involves some conscious or intuitive valuation of the claims of the several instincts upon the organic resources. It is staff work, and in man becomes more and more specialised in the brain. Man thus becomes the reasonable animal, and instead of leaving the urge of life to the wild and arbitrary claims of the several primary instincts or to the demands of specific survival, he disposes of as much of the 'urge' as he can control along lines of conduct directed by a conscious regard for his general career and character. This control of the coördinating reason is always very incomplete, and some turbulent passion is liable to seize the reins of government. But, normally, reason, in its humbler guise of commonsense, manages to set limits upon the separatist desires. When Hobbes declared that "Reason is and always must be the servant of the passions", he was posing as a moral anarchist. For though modern psychology everywhere displays the craft with which the passions 'rationalise' their cravings, it is none the less true that the whole development of the orderly institutions and practices of civilised societies attests the normal supremacy of reason.

Indeed, the instinctive coöperation of the organs of the physical organism for the protection and well-being of the whole is the first in a series of experiments in the art of federal government, the reconcilement of the interests of the one

and the many. The coöperation of the instinctive urges and activities, involving the arts of repression, stimulation, and sublimation, is the whole substance of the life of man.

Here we may pause to ask, how far this distinctively biological conception of human life and its welfare is fundamentally affected by the development of self-consciousness and the reasonable mind. There is a conflict on this point between psychologists. McDougall holds[1] "The instinctive impulses determine the end of all activities, and supply the driving power by which all mental activities are maintained: and all the complex intellectual apparatus of the most highly developed mind is but a means to this end, is but the instrument by which these impulses seek their satisfactions, while pleasure and pain do but serve to guide them in their choice of the means."

To this Messrs. Graham Wallas and Hobhouse take exception. The former[2] insists that, "We are born with a tendency, under appropriate circumstances, to think, which is as original and independent as our tendency, under appropriate circumstances, to run away."

McDougall himself admits 'curiosity' in his list of instincts. But is he right? Each instinct seems to have a 'cunning' of its own which implies 'curiosity' and some power of learning by trial and error. Is there a disinterested tendency or disposition to think? Is it original, or does it emerge later in 'play of the mind'? The sportsman develops a 'disinterested' desire to hunt and kill, utilising a primitive biological utility as a source of pleasure.

The 'original tendency to think' was possibly no more than the dim consciousness which impelled the various organs to coöperate for purposes of survival, together with the 'curiosity' which accompanied the operations of each instinct in handling its opportunities and obstacles. But when, as in man, the conduct of the conscious common policy of the or-

[1] *Social Psychology*, p. 44. [2] *The Great Society*, p. 42.

ganism became specialised in the brain, this organ may have utilized a portion of the energy placed at its disposal for 'play', i.e., for immediately disinterested use. Curiosity and the reasoning process may, therefore, be conceived primarily as working in the interests of individual and specific survival and development. But their 'play' though, like all sound physical sports or exercises, endowed with biological utility, came more and more to be valued on its own account as 'disinterested culture', and to pride itself upon its non-utility. This appearance, however, must not deceive us. The brain remains an organ and servant of the human organism, and all its functions subserve the organic interest or 'purpose'. Our intellectual play, therefore, in its highest reaches, where it is least concerned for the promotion of any end but truth, as in mathematics or philosophy, contributes indirectly to biological utility by making the mind a more efficient instrument for all its practical work. All play, physical, intellectual, emotional, is evolved for this biological utility. But not being directly and immediately linked to utility, it is misconceived as being free and an end in itself. A wide measure of liberty is, indeed, accorded to all forms of play, and the development of personality is largely a product of this freedom of intellectual and emotional experiment. But this development of 'personality', in which the individual comes to play a larger and larger part in the specific life, is itself contained in the process (or purpose) of organic evolution. These various plays have satisfactions of their own, values which may be kept distinct from those appertaining to the organic ends they serve. These pleasures, or satisfactions, may, indeed, stimulate exercise in the play processes, a prodigality of expenditure of time and 'surplus' energy damaging to the economy of life. This is readily recognised in the sportsman who exploits for his pleasure activities of pursuit, conflict, and adventure, once needed to furnish food and protection to primitive man, and endowed with pleasure in

order to sustain their useful efforts. A man who can get others to do his useful work may devote himself to sport. Or he may devote himself to mental games, to scientific research, or to literary pursuits of a wholly unproductive order, playing with his mind just as the sportsman plays with his body, and reaping the pleasures of the mental exercise.

In a society economically constituted as ours is, there is nothing to prevent, and much to encourage, a waste or misdirection of 'surplus energy' in forms of physical and intellectual play which make no real contribution to a soundly developed personality or to the welfare of mankind. For such play exhibits in the most dramatic way the self-assertive urge which is the greatest enemy of social discipline and order. To be able to devote all one's time to 'play' (useless activity) signifies the confident ability to force others to feed, clothe, and otherwise keep us. This dependence upon others is often explained by a strange inversion as the possession of an 'independent' income. The full waste, however, from an excessive liberation of play processes in our cultural life, in the development of perverted forms of intellectualism, and art, is seldom if ever appreciated, though Mr. Veblen has applied revealing analyses to some of the forms it takes in cases of conspicuous leisure.

As individuality and a personal life come to play a richer rôle in the economy of evolution, activities and satisfactions closely related to the mind will figure more prominently as values or sources of value. Happiness will be raised to a higher plane. But though prepared to express all human values, and therefore all welfare, in terms of desirable consciousness, we need not go so far as some psychologists in distinguishing mind from body and in elevating the former to a seat of separate supreme authority.

Professor Hobhouse goes, I think, too far in his insistence that mind is "the emotional principle in reality" [1] and has an

[1] *Contemporary British Philosophy*, p. 180.

interest of its own, apart from the interest of the psycho-physical organism as a whole, and the specific life of which it is part. While admitting that "conation directed to stock preservation has of course high survival value and so far the development of mind presents neither less nor more difficulty than that of a useful limit", he cites certain mind development to which he denies 'survival value". But the cases he cites, in particular "æsthetic tastes" and the "cognitive interest", hardly sustain his contention. For, though they may not have much survival value for the individual, they certainly have for the stock or race, and it is "stock preservation" which he has taken for his test. I should, however, urge that even for individual survival the cognitive interest, though involving risks, has clear value, and that the same holds of "the social feeling" which he says is "of dubious value biologically to the individual".

§ 5. In working out the basic theory of Welfare in Human Values, I incline to adhere closely to the conception of man as a psycho-physical organism, Welfare emerging in an organic harmonious coöperation of interrelated physical and mental activities. This organic harmony takes three distinguishable shapes in the individual economy.

(1) The healthy functioning of the body, mainly by sub-conscious or low-conscious actions. To this belong the due adjustments of diet, exercise, and skilled operations of the body. This physical efficiency is the basis of personal welfare.

(2) The education and practice of mental activities, the acquisition of knowledge, thought, imagination, the cultivation of the emotions under the guidance of a reasonable will. This mental development is designated culture.

(3) The close linkage of body and mind in every department of the intellectual and emotional life is enforced by modern biology and psychology. Perhaps the most remarkable recent testimony is the discovery of the part played in

our emotional economy by the ductless glands and the discharges of their hormones. Human nature thus presents itself as an ordered equipment of organs and cells, stirred to activities that are contributory to the survival and development of the individual and the species, with a physical attachment of desires and conscious satisfactions, under the more or less effective control of a central directive sense or intelligence exercising some orderly government over the instinctive urges by coördination, suppression, repression, sublimation, in the interests of the organism as a whole.

While then the welfare attaching to this psycho-physical organism in its activities may be held to consist in states of desirable consciousness, with values assessable by some standard yet to be determined, this implies no disparagement of the non-conscious or distinctively physical factors, whether in the human body or in its external environment, that are the necessary conditions and sources of this conscious welfare.

# CHAPTER III

## WELFARE THROUGH COMMUNITY

§ 1. Our enquiry into Welfare has so far, proceeding along the biological path of organic evolution, been confined to individual economy, though this individual economy contains instinctive provisions for the survival and evolution of the species. But we shall rightly be reminded that, body and mind, the individual is a social being. He could not come into existence or survive apart from the social heritage and environment in which he lives and moves and has his being. No study of man's welfare and its values can, therefore, go far without becoming entangled in that web of associations and organisations which expresses the social disposition and activities of man.

Psychologists usually see the origin and meaning of social organisation, partly in the instinctive desires or 'dispostions' of the individual man, the sex instinct and the ensuant 'tender feeling' for the young, needed to secure their protection, with the more disputable instinct of gregariousness; partly, in the intelligent recognition of each that his personal interests are subserved by coöperation with his fellows. Thus the family, in its crudest form a device for racial survival, becomes a community with various coöperative functions for the provision of food, shelter, defence, dances and other rites, while local groups of families related by blood and common interests coöperate for the performance of certain other economic, political, and religious functions. Further extensions of group areas for social, political, economic, and other purposes give us tribal, provincial, national, and interna-

tional community, while within each wider sphere of activity special interests weave for themselves innumerable webs of association.

While, on the one hand, these modes of coöperative activity enrich the individual life and personality by giving man a better control of his environment and so rendering material progress possible, on the other hand, they evoke something that is called 'a common consciousness'. Here we are confronted with a problem we cannot shirk. If persons coöperate, whether for some common good in which they all participate, as in public worship or national defence, or in order better to achieve some purely personal end, as in the form of coöperation termed commerce, the practice of such association engenders social feeling, sympathy. Admittedly there is a change wrought in the thinking and feeling of men who are brought into these associations. They become more social in their consciousness. Their values and their welfare become more social by reason of the extension of their personality through sympathetic contacts with others.

But is this all? Or can we attribute to group life and its associations some value other than what is contained in the consciousness of the several members of the group or society? This is the issue raised by 'esprit de corps', 'public opinion', patriotism, party spirit, 'the communion of saints'. Are these collective terms anything more than expressions of certain changes of feeling and view common to all the members of the association and produced by the associative process?

A church, a university, a political party, may, it is said, be in itself valuable, have a significance or spiritual use, even a sort of 'life', binding together, as it does, in some common service not only the existing members of such association, but past, present, and future generations. But is this corporate life anything other than the thoughts, feelings, emotions, activities of its members?

There have been sociologists prepared to treat the State,

the economic system, the church, and other 'societies' as organisms, and to ascribe to them a life and consciousness similar to those ascribed to the animal organism. Schäffle, Spencer, and others have pressed the analogy far. There are obvious difficulties to its acceptance. Are these social organisms psycho-physical like the human organisms? If so, the same bodies must enter into many diverse social organisms. The body of Jones, as well as his psyche, must be a 'cell' in some national organism, in some party, church, club, and many other associations. If so, the Jones cell can only function in one of these social organisms at a time, and this seems to negate all continuity of life for such societies. This is for me a graver difficulty than the alleged absence of a sensorium, for the government or committee of a society may claim in their real presence and control to function as a sensorium. Nor is the absence in a social organism of an integument containing the constituent cells and organs so fatal an objection as it sometimes seems. Biologists recognise many compound or colonial animals which, though their parts are physically specialised for the performance of certain functions within the group-economy of the animal, are capable of living separated from the mass.[1] It is difficult to deny to societies of ants, whose divisions of function are expressed by definite structural differentiations among the individual organisms, the existence of a social organic structure, and, so far as consciousness is required for the conduct of such organic life, it will be at any rate in part a group-consciousness.

It would, however, be foolish to suggest that any human society or association displays any such order or organic structure on its physical side, or that there is any such solidarity of social purpose as appears to be exhibited in the instinctive and self-sacrificing coöperation of the hive or anthill.

[1] Cf. Espinas, *Les Societes animales.*

§ 2. The real issue, so far as it affects our treatment of human values, turns upon the question of the recognition or meaning of a group-mind, or a social mind. Most sociologists repudiate the existence of any social mind. Though Professor Hobhouse admits for discussion "what we may call the social mind", he understands by that term "the order formed by operation of mind on mind, incorporated with social tradition handed on by language and by social institutions of many kinds, and shaping the ideas and the practice of each new generation that grows up under its shadow." [1] There is for him no social consciousness. Mr. Maciver is equally explicit in his repudiation. "There are no individuals who are not social individuals, and there is no social mind which is not individual mind." [2] Professor Perry expresses himself with even fuller emphasis, declaring that, "Although a society is a whole, system and individual, composed of interested, willing, thinking, self-conscious, free, responsible, and happy men, a society does not have or take an interest of its own, does not will or think, is not self-conscious, free or responsible, and does not enjoy happiness." [3] Yet Professor Perry does not reject all use of the term "social mind", but accepts from Professor Davis the view that, the 'social mind' in this sense is "common mental contact, common mental qualities and characteristics, which are realised by these individual members to be common, and which when so realised operate as "dynamic social agents upon individuals during childhood and maturity". [4] We may here append the statement of Professor Davis that "the dynamic agent of the psycho-social unity is the social mind, a mass of common beliefs, sentiments, and determinations, pursued by the individuals of a group with the added consciousness

[1] *Development and Purpose*, p. 12.
[2] *Community*, p. 62.
[3] *General Theory of Value*, p. 460.
[4] *General Theory of Value*, p. 508.

that the other members simultaneously cherish them."[1] Dr. Barker, however, holds that there is a social mind which is "something that exists in and along with the separate minds of its members, and over and above any sum of those minds created by mere addition."[2]

It will, I think, be admitted by all these thinkers that organised coöperation, the voluntary participation of individuals in some common activity, can produce a valuable effect, spiritual or even material, different both in quantity and in character from that which the unorganised activities of the individual participants could compass. An orchestra, teamwork of any kind, economic coöperation by division of labour or exchange of goods, achieves a result which can not properly be resolved into the separate contributions of the coöperants without losing its essential character. The symphony, the church service, the cricket match, even the working of a steamer or a factory are not mere additions of the separate contributions of those who take part. The unity of the plan or purpose, the harmony which they express, is the essential character of the joint activity and carries a corresponding unity of consentient feeling in the participants. If I am told that after all this feeling is only existent in the particular participants, I shall not demur, but shall merely stress the fact that the participation produces and communicates feelings that could not be experienced otherwise than by this common organised activity. This is indeed true of all organic life: the feelings, thoughts, emotions, will, which I experience are only implemented by the coöperation of the individual cells in my brain and nervous system. But this does not preclude the judgment that *I* think and feel and will. Though the community, represented in an orchestra or a church service, is a briefer unity and affects its participants more partially, the product, alike as an objective entity and

[1] Davis', *Psychological Interpretations of Society*, p. 68.
[2] Quoted Ginsberg, *Psychology of Society*, p. 63.

as a desirable consciousness, appears in principle so single and unique in character as to lose in meaning if assigned to the separate activities and feelings of its individual coöperants.[1]

§ 3. In any consideration of the relation of economic to human welfare, community bulks so big as to compel us to a somewhat closer exploration of the community sense and sentiment.

Two predispositions incline most 'intellectuals' either to reject or to disparage the existence or worth of community sentiment and to regard the feelings, tastes, conscience of individuals as the sole source and arbiter of value. One is the dread of a 'herd-mind' identified with mob rule, disorder, and ochlocracy. 'Intellectuals' are essentially introverts, cultivating their separate minds, jealous of spiritual autonomy, and hostile to such coöperation as will expose their minds to mass-suggestion or to any sort of surrender of the control of their separate consciousness. The other is the apprehension of a God-state or church, under which either dominant personalities or dogmas exercise a devastating discipline over

[1] Dr. W. Y. Elliott, in denying "mind" and "conscious unity" to group association, seems to me to strain differences of degree into differences of kind. "Mind", he holds, "is organic; the group-thinking of associated individuals is co-organic." (*The Pragmatic Revolt in Politics*, p. 386.) Elsewhere (p. 382) he claims for "the individual mind" that it is a system of a peculiar order in that "it forms not *inter-mental* relationships, but *mental* relationships within a single self-consciousness." Now the "unity" as "singleness" of individual personality differs widely in degree even in the same individual at different times under different conditions, quite irrespective of abnormal cases of dissociated personality. On the other hand, there is more singleness in the mental activities of certain groups, under certain conditions, than Dr. Elliott seems to admit. It cannot be admitted of group life that "its will is dependent upon the ideas of two associated individuals" without adding that their wills are dependent upon it. But it may, for all that, be convenient to have some separate term to distinguish the federal unity of a group from the closer normal unity of the individual mind, and if the term "co-organic" advances that end, it may be well provisionally to adopt it.

the private mind. Everywhere and always in history, the free life and mind of the individual have been so crushed, enslaved, and moulded by tyrannies of State, Church, masterclass, or parental authority, with customs, taboos, laws, and sanctions of their making, as to make suspect among free minds any other values, or 'loyalties', than those of conscious personal choice. Among thinkers there is always fear of the ruder, more emotional urge of community life. Philosophers and saints are apt to 'keep themselves to themselves', and perhaps to pride themselves upon so doing. These feelings, I think, colour the view taken by many scientific men about the nature of community.

Even those who take the narrowest view of the limits of political government will regard peace and security of life and property either as values or as conditions of personal values. Associations of various kinds, for common benefits, ecclesiastical, political, economic, social, educational, recreative, may, of course, be treated not as things valuable *per se* but as instruments or apparatus by the use of which personality may be enriched — i.e., individual values emerge. But to deny all human value to the collective life of these associations, and to put them on a par with a jointstock company which exists to earn dividends for its individual shareholders, is surely to take a narrow view of the vital functions of community work.

Whether with Maciver (and others) we treat community and its network of associations as purely spiritual entities, expressing "relations of wills",[1] or, as I would prefer, corporations with all the concreteness of their material apparatus, the physical city as well as the civic will, the market place as well as the will to buy and sell, there is surely some virtue or value in the unity of the whole which is not expressible in the constituent elements.

Are we to say that community in all its associations is

[1] *Community*, pp. 128–31.

merely the opportunity for individual conscious values to arise? Peace and order and the primary functions of social government may possibly be treated as mere conditions. But shall we say the same of the more positive and concrete benefits which political and other social organs provide? Is there no value, no virtue, no spiritual riches in the traditions and history of the great city? Is Athens in the fifth century B.C. computable only in the added worth of its separate citizens? Is it mere rhetoric to speak of 'the glory that was Greece, the grandeur that was Rome'? I see a beauty, a value in family life, not merely as 'a relation of wills', but as a happy coöperative activity in a home. So with a city — a country — and its people.

It is not merely that persons living or acting together can do things — and so get values — which they could not do apart, nor merely that they are different persons though living and acting together, but that there is a general spirit, will, and achievement that have value, and that this spirit is embodied in physical forms and activities which contribute to the 'value'.

§ 4. That a good society gives opportunities to individuals is not a sufficient account of a good society. It also exists to pursue a worthy life of its own — and this life is not purely physical but has its spiritual expression or counterpart. This has a special application to economic society, as Dr. Marshall recognised.

"Perhaps the earlier English economists confined their attentions too much to the motives of individual action. But in fact economists, like all other students of social science, are concerned with individuals chiefly as members of the social organism. As a cathedral is something more than the stones of which it is made, as a person is something more than a series of thoughts and feelings, so the life of a society is something more than the sums of its individual members." [1]

[1] *Principles*, p. 57.

If this be so, it is difficult to refuse value to associations, or to deny that such values contribute to human welfare. But if we are agreed that welfare is ultimately reducible to desirable consciousness, we seem to be driven to admit that some collective consciousness and urge or purpose inhere in these associations as well as in the individuals who associate. But the expression "as well as" perhaps carries us further than we are prepared to go. For it is certain that the association is 'composed of' and functions through the individual members, that whatever collective consciousness there may be is 'in a sense' their consciousness. But in what sense? Be it granted that all feeling and thinking emanate from individual centres of consciousness. But when individuals think or feel in association, the fact of association alters the nature of their thinking and feeling.

It is not merely what Professor Giddings terms a "pluralistic response to a common stimulation",[1] a self-stimulation made more intense by the recognition that others are undergoing emotional excitement. There is a psycho-physical intercourse which not only strengthens but alters the feelings and behaviour of the participants. It produces, as indeed Professor Giddings admits, an associated behaviour, or co-operation, in which different parts are undertaken by the individual coöperants. Even a mob, if held together by a common excitement, will develop traits of leadership and following, the rudiments of an organization. It is, therefore, not enough to say that "the material of society is a plural number of like-minded persons." In a society, or even to a less degree in a herd of animals, there must be some elements of unlike-mindedness, essential to a coöperation which is not the performance of identical acts by a number of individuals, but a harmony of diverse activities.

[1] *Studies in the Theory of Human Society*, chap. IX.

Cf. *Ethical Love*, by E. W. Hirst, chap. VI, dealing with "The Significance of the Herd Instinct."

Stated otherwise, associated thought and feeling are a special sort of consciousness, and carry values of their own. How far this signifies that minds interpenetrate, and in some degree combine or fuse, may well remain an open question. Perhaps the following citation from Dr. Ernest Barker will illustrate the perplexities that envelop this topic.

"The unity of a nation — is not that of a person which transcends the persons of which the nation is composed; and there is no separate national mind or will or personality apart from the minds and wills and personalities of its members. National unity is not that of a mind, but that of a mental substance. It consists in a common structure or content of ideas — ideas made electric by feeling and therefore issuing in will and effort and action — which are resident in the minds of the members of a nation, and, except in so far as they are apprehended by the minds of members of other nations, are resident only in them." [1]

If this leaves us in a logical quandary, it is only one of many such quandaries that confront us in our attempt to give precision to the relations of 'the one' and 'the many' wherever persons or things come together into 'wholes'. An organised unity, or whole, cannot be explained adequately by any analysis of its constituent parts: its wholeness is a new product, with attributes not ascertainable in its parts, though in a sense derived from them. In this sense an association may have feelings, even thoughts, that are not found as such in the individual. Quakers find this in 'the sense of the meeting'. It is found also in one of the significations of 'common sense', not merely that sense which exists the same in each person, but a genuine 'sensus communis' which animates and forms a flow of thought and feeling where people put their minds into the common stock and 'get together' in a spiritual way.

Even those who reject common consciousness of any sort

[1] *National Character*, p. 135.

admit that one mind is affected by another both in feeling and in thinking, that in this sense there is sympathy and synesis from association. That human personality is enlarged and enriched by association will not be questioned. It is also important for the comprehension of social values to realise how association is enriched by personality. *Prima facie* there exists a disposition to regard 'society' in all its forms as a unifying, levelling influence, imposing upon persons of different dispositions uniform codes of conduct, thus producing a mind of willing conformity. Some such levelling and repressive tendencies belong to all associations and organisations. Members must obey rules which do not always fit their case. But they make these apparent sacrifices for two reasons. First, because they desire to participate in communal activities and experiences which demand this conformity. Secondly, because they realise that both the give and the take of social life enlarge personal liberty and enrich personal life.

§ 5. This is the paradox of association — of civilisation — that a man becomes at once more like and more unlike his fellows. The paradox is in reality easily resolved. For in the larger and more complex life which men get by association there can emerge at the same time more points of likeness and more of difference. Though accepted rules, conventions, codes of behaviour impose a single standard, this is an economy of personality which leaves more energy, time, and opportunity for private individual enterprise and self-expression. But it is not only by thus enlarging the scope for non-associated activities that association helps personality. It does so more directly by evoking and utilising personality in associative activities. The formal structure of an association is often deceptive. In most clubs, societies, political associations, there exists a formal equality of membership that suggests an identity of function which does not actually exist, and which, were it operative, would be fatal

to the well-working of the association. For in these diverse associations personality finds expression and achievement. The formal identity of object and equality of status does not mean that each member gets and gives the same. As club members all may pay the same subscription and have the same voting rights, the same right to be elected to the committee, but some get more out of the club than others and contribute more to its functions and amenities. Associations are fields for the play of personality — new personal values are there produced. But if we stress this significance of associations as affording opportunities to individuals to express and enrich themselves through organised contacts with others, shall we deny that such contacts, and even the organisations which furnish them, have value?

The relation of individuals towards associations will differ. Some men evidently join a society, or take part in public work, for what they can get out of it — a calculated or more often a 'natural' selfishness. Others sacrifice ease, means, and 'natural' inclination to public spirit and philanthropy. They want to give rather than to get. There are thus two sorts and sources of value in associations, what you give to the association and what you personally get from it. Or perhaps three sorts of value, first, what you get directly in personal benefit from the object of the association — the enjoyment of golf or some knowledge of botany or history; secondly, the satisfaction from associating with others in a common cause or interest — breeding an attachment or 'loyalty' to the institution. Thirdly, there is the 'value' attaching to the association which is an object of regard and loyalty and is psychically represented in the community of wills and activities of its members, past, present, and future. Such is the conception of the Catholic Church, the Liberal or Conservative Party, the House of Commons.

Test the issue in the simplest, smallest, and strongest association, the family. You cannot explain the family without

recognising in it these three sources and modes of value, that which each gets in physical and moral satisfaction and use from the common life in the home — operating differently on the persons as they are differently related to one another, father, mother, brothers, sisters, of various ages and dispositions. Then comes the sense in each of a common attachment, love, perhaps pride in the family name, character, and tradition. Lastly, there is the value of the family *per se* as a sound, well living, serviceable, prosperous stock. I cling to this third value and will not have it dissipated into the several personal values of the particular members of this family, past, present, and to come.

The attribution of values to institutions or associations, as such, no doubt carries risks, which to some thinkers bulk so large that they are led to repudiation of all values not directly translatable into personal ends. Mr. Maciver is haunted by this fear.

"The history of progressive peoples constantly reveals the danger which arises when institutional forms become ossified, the danger that they may pervert instead of furthering the spirit, traditions, way of life out of which they arose. This is preëminently true when the institution is invested with sanctity, as in the case of ecclesiastical institutions." "It has been well pointed out that the continuity and permanence of institutions, as contrasted with the short-lived race they serve, gives them often to our eyes a false character, as if they existed for themselves, or for some supra-personal end." [1]

The exaltation of officialism and its divorce from the sense of service, intense conservatism, are natural defects of institutions which acquire prestige and worship on their own account. But bureaucracy and conservatism are not inherent in associations: they are due to failures of the living members to utilise the freedom of the associative processes.

[1] *Community*, pp. 162–3.

If institutions fall too much into the hands of their permanent officials, it is because the spirit of association burns dimly in their membership. But this is not a reason for denying value to an organisation and to the associative activities that comprise its 'life'.

I do not contest the principle that all human values are expressible in human happiness or desirable consciousness. But I object to the assumption that this welfare can always be carved up into the separate welfares of individual persons. There is a genuinely collective enjoyment of "joys that are in widest communalty spread".[1]

§ 6. In modern life everyone is contained in a network of associations, to each of which he must contribute something in work or influence, and from which he must receive something. Some are general. Everyone lives in a series of concentric circles of association which affect him in general as a human being. Such are the home, the neighbourhood (village or town), his class, his country, the world. These general contacts are of differing proximity, force, and interest. Each carries its influence, its loyalty — and conflicts of loyalty arise. In primitive life family and tribe were limits of association and loyalty. Civilisation has expanded areas and weakened narrower loyalties. But the weakening of the narrower primal associations has mainly been achieved by specialisation. The craft or profession, severing itself from the early household economy, has itself become a highly differentiated process in a wider coöperative enterprise. Religion, education, morality, the arts and sciences, the social amenities and recreations, have passed away from the condition of loose activities within the family or neighbourhood,

[1] The insistence upon the individuality of all values not merely weakens the conscious significance of associations, it impairs, if it does not destroy, the concept of a biological urge for the life of the species. Although the procreative urge comes into direct conscious expression in the individual parent, some value must surely be attributed to the wider biological urge or 'purpose' of the species.

and have woven for themselves highly specialised societies, with growing areas of operation and elaborated governments. Politics itself is a conspicuous example of this joint expansion of area and specialisation of function.

§ 7. All this is commonplace enough. But consider its bearing on values and welfare. I have represented these processes of association and community as enlargements and enrichments of personality — carrying greater liberty, fulness, and variety of life. The general benefits of coöperative action for many purposes are so great and obvious as to blind us to certain dangers and drawbacks.

The tests are liberty in associative processes and efficiency of personality. It is said that associations become 'machinery', that they so 'mechanise' their members that they become not free instruments by which the personality of these members may find expression, but forces wielded by 'officials' and 'specialists' for power and control over others, imposing rules upon life which the ordinary members must accept without any personally free consent. Thus, it is argued, civilisation means standardisation in personal habits, in food, dress, dwelling, and all the material side of life, equally in culture, religion, politics, literature, art, and amusements.

Associations, especially in politics and industry, have, it is maintained, escaped the effective control of their members, and so dominate and direct their wills, sentiments, and activities, as to cheapen and degrade human personality; they retard progress by stifling private criticism and experiment, thus impairing the values of free personality and the survival and emergence of 'genius'. This is no new charge. As we are aware, it is part of the indictment of capitalism and machine economy. But its wider formulation concerns us here, as affecting the conception of human welfare.

The general case for associations as value-makers rests on the assumption that members are 'free' to enter them, that,

having entered, they can find in the activities of the association free scope for any personal contributions they can make, and that they will take their share of gain from the free personal contributions which others make to the general fund of health, knowledge, goodness, beauty, fun, which the association exists to supply. But if it be true that members are virtually compelled to enter certain political, economic, or religious associations, and that they find these bodies so strongly controlled by caucuses and officials that their particular will, interests, or services can exercise no influence on the work of the association, while the functions of the association, thus controlled, either are diverted from the good of the members to the ease, profit, or power of the administration, or are engaged in enforcing orthodox and conventional types and patterns of conduct, behaviour, consumption, opinions, sentiments, upon their members — such associations may be found to be turning out negative values. In this process industry with mass production, of course, plays a leading part. But industry is mostly concerned with bodily wants and utilities in which individual divergences are smaller and fewer. There are certain 'goods' that are good for all, or for most, and their standardisation is a large net economy. This applies likewise to things of the mind. Thus, there are certain common routines in education that are right and necessary, because minds, as well as bodies, are up to a certain level alike. Were it not so, society would be impossible.

But well-ordered associations will not only furnish similar goods and services to similar persons, but will enable dissimilar persons to satisfy their dissimilar wants. This is a hard saying. It may be urged that persons can only associate by virtue of their similarity: they come together because their common nature, or situation, demands common satisfaction which can better be got by coöperative than by solitary activity. An association cannot deal with the un-

common, abnormal, unique, the strictly personal. All human beings are alike: no two of them are alike!

The danger of associations is in compelling or inducing the unlike into conformity. Here is the tyranny of the machine, the committee, Main Street, the multitude. Even here some qualification is needed. Certain conventions and codes of conduct, ways of living, are so necessary or convenient that recalcitrants must either conform or get out. The 'Idiotes' — who claims in all matters to be a law to himself — cannot be tolerated in any society. If he cannot be expelled from the political society of which he is a nominal member, he is shut up. But there is always danger in carrying too far this insistence on conformity. The 'Idiot' may be a genius, the recusant a saint. The defect of intolerance is inherent in organisation. Every power tends to exceed its rightful limits. Oppression and repression insensibly creep in to all associations. Heresy-hunting in an active sense is not the heaviest injury: more damaging is the constant, secret, unconscious pressure to submit, not to criticise, to conform, not to rebel. So the seeds of novelty, the variations which yield new values, are starved.

The modern State is in the centre of this controversy. Its laws and institutions are designed to secure certain standards of conduct and well-being, certain conformities held to be essential to public order, public health, public morals. Its new claims are innumerable, penetrating all departments of life, everywhere imposing standards of food, housing, sanitation and hygiene, education, industrial conditions, extending its control over transport and communications, moulding or curbing public opinion and morals by censorship and prohibitions. These restraints and provisions, it is argued, make for larger liberty and the emergence of new values in personality. Essentially the problem is one of the place of the expert in the economy of personal life. No one can know everything and do everything for himself. By association

and organisation he can 'hand over' to experts not only the provision of most material needs, but health, education, religion, art, science, literature, and other elements in personal welfare. So, by getting tested and accredited goods and services to satisfy his common human nature, he secures greater liberty and opportunity for the private pursuit and satisfaction of his strictly personal interests.

But organised expertise has notorious dangers. The expert is at once conservative and aggressive. Defence of the speciality that he has made his property causes him to be conservative. The tendency to magnify his office and extend his rule makes him aggressive. This latter tendency is humorously illustrated in the fields of medical specialisation. Dentist, aurist, oculist, throat specialist, tend to find their several centres of interest and income to be the fount and origin of every ill. In political officialism we find the same double trend, conservatism in the ritual of bureaucracy, with a tendency to usurp powers of legislation and administration.

It is not enough that associations and organisations, general and special, shall not invade the regions that should be sacred to personality. They must fulfill another requirement. They must preserve in themselves the seeds of reform and growth by encouraging, instead of repressing, research and criticism. New blood, new ideas, the zeal for reform and growth, are requisites of a vigorous association. This healthy life of associations thus depends upon the maintenance of genuine personal freedom in association. It is everywhere the problem of good government. Unless there is genuine participation by the members in the government and work of the association, they do not get its full value, even if it be conducted by zealous and honest experts. The *absolute* abandonment of personal discretion and judgment to rulers, lawyers, doctors, schoolmasters, stockholders, plumbers, or specialists in any field of knowledge or skill is doubly

wrong. It places in the hands of experts a dangerous power. It weakens personality by an automatic acceptance of the judgment of another person in matters of importance to ourselves.

§ 8. The alleged failure of democracy furnishes a test case. If popular self-government is to function effectively under the conditions of a modern civilised state, delicate adjustments of functions must exist between electors, representatives, ministers, administrators. In the discussion of the possibility of a real democracy much misunderstanding is due to the mistaken equalitarianism supposed to be involved. If all men were 'equal' in capacities, desires, and needs, they should play an equal part in all determinant processes of government, and receive from the political association equal benefits. But no such natural equality exists. It has become obvious that all citizens cannot and will not exercise an equally intelligent vote in choosing representatives and instructing them, that elected representatives will not be equally competent, zealous, and honest in exercising their powers, either for the making of laws or for the control of the executive.

This is no place to discuss in detail reforms in political institutions, such as the initiative or veto, which shall engage the general body of an electorate in some responsible acts of will, or schemes of political education that may arouse a more intelligent and continuous interest in major issues of domestic and foreign policy. But human welfare, perhaps the very existence of Western civilisation, quite evidently depends upon the possibility of genuine popular self-government. The notion that self-appointed dictators of oligarchies can be trusted to defend the fortresses of liberty and personality is chimerical. The safeguard of democracy is 'common sense,' the existence of a defensive intelligence founded partly on definite experience, partly perhaps on an inherited 'herd' instinct of protection. It is not a clear in-

tellectual apprehension and logical application of large principles of government, but an aptitude for dealing with situations and issues when they arise with some measure of consistency and wisdom. Democracy depends more upon getting conditions for the easy play of a somewhat more instructed common sense than upon any other condition. That sense may not be equally distributed, but it is apt to emerge from discussion as the 'general sense of the meeting' and to express some common consent.

But in considering the human values from associations, political or other, the idea that all persons should or must share *equally* in the advantages of association is just as false as the idea that they should contribute equally towards directing the association. 'Equality of opportunity' is often accepted as an obvious equity of government. Now such equality may be a sound working principle — but only because there is so much likeness in the make-up and environment of most individuals that their differences may safely be ignored for certain purposes. Nor can it be pressed far. Economy of social income or other resources requires that opportunities should be distributed according to capacity to use or enjoy them. To give equal attention to the education of the bright and the dull is wasteful, whether the result of education be reckoned in personal values or in social well-being. The whole principle of Equal Rights, indeed, is a survival of the belief that rights were innate and individual, instead of being socially made and conferred. As a practical rule it may be justified so far as that, when individual capacities and needs cannot safely be estimated, it is best to treat all alike. This is the true defence for equality of political franchise. If it signified that the same amount of political power issued from the will of every citizen, wise and foolish, good and bad alike, the policy would be disastrous. In the State, as in other associations, each member gives and receives a contribution corresponding to his capacity for

giving and receiving. The formal status of equality never represents an equality of influence or gain.[1]

§ 9. This bare analysis of the 'articles of association' may serve two related purposes. First, its testimony to the part played by community in moulding the character and life of its members is needed to refute the stubborn individualism which the separatist pride of personality dignifies under the title of spiritual autonomy. Body and soul, man is made and sustained by association, and the process of civilisation is nothing else than the progress of the arts of association. In any estimate of human welfare it is, therefore, necessary to take our stand firmly on the principle of the social determination of values, even though we may hold that these values always fructify in the desirable consciousness, or happiness, of individual men and women.

Secondly, it is important to realise that associations and organisations are not always a natural growth, a free expression of common interests. They may be the artificial contrivances of man, with special private interests to serve, imposed upon the wider community. There may even be a tendency for associations, originally simple in their form, to amplify their scope, and complicate their structure, by virtue of some internal and almost automatic propulsion. At any rate, it would appear that in modern times the rapid growth, increased complexity, and expanding areas of organisations threaten to outstrip the capacity of men and women to develop a community sense adequate to the new demands. The reasoning powers, the judgment, the morale, the nervous system, of members of modern communities, it is contended, fail to adjust themselves to the new requirements. Some such trouble seems to lie at the roots of nearly all our political and social problems. Human animals living from pre-

[1] In his excellent treatise of social ethics, entitled *Ethical Love* (Allen & Unwin), Mr. E. W. Hirst urges the substitution of the term 'equity of opportunity' for 'equality of opportunity' (p. 247).

historic times in little simple local groups, virtually self-sufficing for the requirements of their narrow lives, have within a few generations been called upon to revolutionise all their ways of living, thinking, and feeling, all their traditional modes of work, dissolving the narrow bonds of locality for national and world coöperation. No wonder they are bewildered and distracted in their fumbling attempts to use with safety and success the apparatus of modern institutions that gives concrete expression to this widening of horizons in politics, industry, science, and every other art of conduct.

# CHAPTER IV

## STANDARDS OF WELFARE

§ 1. We have pursued our enquiry into human values and welfare so far along two routes. First, we have taken into our consideration the innate equipment of the human animal, his instinctive urges and satisfactions. Secondly, we have briefly sketched the evolution of associations and organisations, partly under pressure of social instincts, in a community sense, partly as products of intelligent self-interest seeking the private individual benefits of coöperative and corporate activity.

We have also given brief acknowledgment to the operation of some central directive agency, adjusting the conflicting claims of the several urges, bringing other urges into fruitful coöperation, and aiming at some total economy or harmony which shall give due satisfaction to all the demands of human nature in accordance with the rules of this central directive agency. In speaking of this directive agency we have sometimes used the term reason, sometimes intelligence, sometimes commonsense. Others would claim that these words confined the processes of control too much within the human mind, and would assign either to providence, ' manifest destiny,' or other creative urge, the cosmic economy, the larger determination of human activities and satisfactions.

Again, in the physical economy of the human body most important adjustments are due to reflexes or other instinctive operations that take place below the threshold of consciousness. From both these sources important contribu-

tions to human welfare may be made in furnishing the moral or material conditions for the emergence of values in the shape of desirable consciousness, or happiness.

But our task here is directed to the part which man can take, as a person or a society, in the conscious guidance of his life for the furtherance of his welfare. The concept of welfare, as we have already recognised, involves adjustment, coöperation, harmony, of different satisfactions, or values within their several kinds, or groupings, and also of these kinds or groupings as contributory to a worthy and complete personality and society.

Even the most careless or reckless of men practises some regulation of wants and satisfactions. The selfish hedonist will vary and limit his pleasures, in order to get the maximum enjoyment. He must not give free rein to each appetite, must avoid discordant or conflicting activities, must shun satiety, in a word, must order and harmonise the only values that he recognises. If he becomes too lax in his economy, he loses and is lost. A careful policy is that of the athlete in the training of his body, or the intellectualist in the training of his mind, the gymnastics and music of the Athenian education. So too with the Pharisee, Puritan, or self-centred moralist, handling spiritual values and appearances for saintly prestige or the saving of his soul. All practise the art of adjusting diverse values within some special personal economy, following some conventional or thought out scheme, or else some inner light for guidance. The art, as practised by the hedonist, or even ' the average sensual man', in adjusting the claims of distinguishable physical urges, is properly an act of æsthetics. But when we enter the wider field of the adjustment of the respective claims and urges of physical, intellectual, and moral values, we enter ethics in its broader significance as the science and art of valuation.

This brings us closer to the problem of standards and the

criteria behind them. Standards of welfare which take into account all the varying interests, urges, and satisfactions of life, will stand out, for individuals and societies, in different degrees of definite consciousness. In origin and nature they cannot be regarded as purely rational or even conscious products. For, in the first place, our close adherence to the unity of body and mind obliges us to give due importance to the nervous system and the glandular activities that implement the emotional and thinking processes. Considering that all healthy and efficient functioning of mind and morals are linked so vitally to health and efficiency of the bodily organism, we must shun the tendency of some intellectualists and moralists to treat the body as a merely passive instrument, or conditioning environment, of the active and creative mind. The organic conception of *mens sana in corpore sano* still stands as the first principle of human welfare. The 'standard of living' in its ordinary acceptation is a distinctively material standard. It finds its justification in the truth so strongly enforced by Aristotle that we must first have a livelihood and then practise virtue.

But there is a second ground for not insisting upon too rational an account of standards of welfare. Life is a fine art and in none of the fine arts does the true artist work always along a closely preconceived plan. He must not know beforehand too clearly what he is after. Some idea, or if you like some working model, he must have in his mind, but he must retain freedom to play with his material, to try what he can do with it: there must remain room for experiment upon the one hand, inspiration on the other. Indeed, he *cannot* know exactly what he intends to do, unless he is a copyist and not an artist. For the artist is always creative, and creation implies a novelty of material, situation, aspiration, that carries hazard and adventure, scope for a creative urge that must not be forced into clear consciousness. But the creative urge is in time and quantity but a

small part of the work of every artist: study, preparatory processes, hard routine along intelligible prescribed lines, occupy most of his energies. So it is with life in general, more or less close routine and habit keep a man at a low level of consciousness in most of his doings. And yet one day does not exactly repeat another, even the routine of each day contains innumerable little variations that call for conscious reckoning and adjustment. Some careers abound in novel situations that call for skilled handling: all men are fairly frequently brought up against the need for sudden decisions and choices where reason gives no plain rule. Welfare, in a word, is not for any man a quite clear conception or complete standard. He knows more or less what he wants, and seeks with more or less consistency of purpose to get it. Indeed, as regards what he wants, there is a high degree of fixity in what may be termed the lower levels. And it is here that we may best approach the study of standards of welfare. In the main the values that normally rank lowest in clear consciousness (though highest if they fail) are those contained in, or served by, the things and processes that satisfy our ordinary daily needs, the routine of the life in the home, the street, the office, not only our material requirements but the ordinary intercourse in the family or office circle. If our life is to run satisfactorily, a large part of it must be reduced, for most of us, to low-conscious routine. Few of us want to live adventurously, as regards the advent of our meals and most other supplies of prime physical needs. For primitive man adventure, experiment, the conscious zest of life, must have been mainly concerned with just those matters which civilisation has reduced to fixed routines. Indeed, the whole economy of civilisation has been addressed to enlarging the standard of routine, so as to liberate a larger and larger amount of human energy for higher forms of free activity and satisfaction in the creative art of living. These higher values are not neces-

sarily less physical in their activities and satisfactions. For the great majority of men in civilised communities, security of the prime essentials of physical life by routine organisation does little more than liberate energy which they bestow on sport, travel, physical luxury, and adventure. But the point is that these activities, though largely impregnated with imitation and fashion, give scope for personal distinction, achievement, and skill or risk, that figure in intense consciousness as elements of value. It is needless to labour the issue. It is self-evident that a perfectly standardised life would be destitute of interest, and that the rational economy of life consists in an harmonious adjustment of routine elements on lower planes of living, so that individuals and groups may consciously enjoy themselves in free unstandardised activities. This, of course, applies not only to physical activities and enjoyments. The term 'standardisation of the mind' is sometimes hurled as a reproach against forms of education, opinions, and valuations, imposed wholesale upon, or accepted by, large numbers of persons who cannot be accredited with identity of innate mental make-up. But as on the material plane, so here on the mental there is quite evidently a right place for standardisation. There is a similarity, even an identity, of mental as of physical equipment in all specimens of *homo sapiens*. There will be quarrels about the right constituents and proportions of the mental, as about the physical, diet of the normal child, but the same economy of welfare will enjoin the acceptance of common standards on a reasonable supposition of identity of needs and methods of supply. Minor idiosyncrasies are rightly ignored, their sacrifice is justified by the liberty they purchase for the free play of larger personal divergences on higher levels.

§ 2. A word may here be desirable about the use of the terms 'higher' and 'lower' values. 'Higher' values, as we have been using the term, do not necessarily imply values

that are intrinsically 'more valuable' and as such to be preferred. Our use has been governed by two considerations. First, as the directive activity in variation and selection makes the human organism more complex and brings into play new powers of mind, both for practical work and reflective, new desires, wants, interests, emerge upon the conscious plane. The values attaching to these later, more refined phenomena are by general use designated higher. Secondly, there is an 'ethical' sense in which they claim to be higher. The prime physical urges are either purely selfish, i.e., directed to the safety and satisfaction of the separate animal organism, or at most to the immediate interests of family or herd.[1] The subtler feelings and thoughts of civilised men are more largely and continuously social in the wider sense, being more intertwined with the interests of their fellow-men. Even the most selfish man in a modern community is compelled constantly to consider the feelings and views of others outside his immediate circle. This, indeed, does not apply to all the 'higher' values, in their immediate implications. For the direct object of the economy of standardisation, as we saw, was to make a larger proportion of energy available for those activities in which one person differed from another, i.e., to the enlargement of individual life. But as civilisation advances, so also in this 'higher' work, where personality is most conspicuous, the need of association and coöperation also grows. The relation of the most individual of artists, literary men, scientists, to fellow workers, and to an intelligent recipient and appreciative public, is of literally vital import. Individual and society, here as in every field, coöperate alike in the strengthening of individuality and of society. The higher the personality and the society, the larger the amount of common life, or

[1] This statement, however, needs qualification in respect of the procreative instinct which, though 'selfish' in its conscious urge and satisfaction, serves the wider and more distant interests of racial continuity.

standardisation, it can and does absorb. This consideration will again intrude with urgency when we reach the analysis of distinctively economic processes. For the present search into the meaning and nature of general human welfare it must suffice to recognise that for most men, perhaps for all, the great bulk of activities are conducted at a low level of conscious interest, so as to furnish time, energy, and opportunity for the physical, intellectual, or moral claims of personality. We must not, however, be carried away by this useful distinction of higher and lower values into asserting that the higher are more important or 'worth more' in themselves. This is the snare of the intellectualist, as pedant or 'high-brow,' of the moralist, as prig or Pharisee.

Hitherto we have treated values and welfare in general terms as matters of agreement, rooted in the natural needs, desires, and interests of man, and coördinated and harmonised by reason, intelligence, common sense, or some subconscious coöperation. We have spoken of ethics as a science and art of valuation. But we have not found the assessor of values, the valuer, who lays down the criteria, makes the comparisons, adjusts the claims. Popular thinking is apt to brush aside these questions with the remark that values are matters of individual taste, and *quot homines tot sententiae.* But this is untrue. We know that there exists a substantial body of agreement as to the main constituents of welfare, and even as to the order of their valuation. Either people are made alike in their desires and interests, or they accept some common authority, law, tradition, fashion. No doubt the individual often plays a distinctive part, and there are those who perversely cultivate a personal pride in differing from the valuations of their neighbours.

An intelligently ordered community will be one that so orders opportunities as to allow for eccentricities of personal valuations outside the general agreements and conventions. There is a sense in which private judgment remains supreme,

and in which it is true that "the final guide in morals, when there is dispute, must be the conscience of each, the sense that each man has of right and wrong, of values." [1] The same applies to æsthetic values. But if it be taken to mean that every man's moral or æsthetic valuation is as good or as valid as any other man's, not merely is it untrue, but it does not express the real mind of the individual valuer, who will often defer to the judgment of others whom he recognises as better qualified than he to judge. Then granting that this deference itself is an act of private judgment, the point is that there are generally accepted canons of value, expressing in the plainest manner that men are alike in their physical and psychical make-up and environment and, therefore, in their needs, desires, and interests. The reason why diversity seems to bulk so big is that the minor elements of unlikeness, of individuality in taste and aims and valuations, are more interesting and provoke more attention. The exception is more interesting than the rule, and the rarer the exception the greater the interest. Here is the truth underlying the oft-challenged Jeffersonian doctrine that "all men are born equal." Taking the whole elaborate system of man, bodily and mental structure and functions, the individual differences are trivial. The differences in body, mind, character, acquire interest, importance, value, because they are different. Probably it remains true that all men are equal in the sight of their Maker, the little divergences on which they pride themselves shrinking into insignificance.

§ 3. In this real equality of men we find the basis of a valuation and a standard of welfare. But, in order to gain acceptance of the validity of such a standard, we have to face the question how far the actual desires of man can be taken as a right index of the desirable, i.e., that which he ought to desire and would, if he were fully alive to his real interests. The desired may not be identical with the desirable.

[1] Maciver, *op. cit.*, p. 318.

Here the question of the reliability and stability of personality is raised. The judgment, tastes, desires of a man vary with age, physical condition, material and social environment. Some personalities are steadier and tougher than others, less fluctuating in their valuations. But all of us know how the same objects or situations expand and shrink in our estimate. Night valuations differ from day valuations. Our attitude towards the future — our discount rate — is continually shifting. So is the strength of our regard for others, the social motive. How then, it may be asked, can we get any standard of current values for the individual? The answer is that these variations in the individual are of limited extent and vary round a norm, just as does his temperature as registered by a clinical thermometer. Put our man into a normal state of quiescence, as a sane reasonable being, with "all his wits about him", and he will register a fairly sane, stable standard of values. There will, of course, be different standards in accordance with differences of race, stock, physical environment and climate, town or country, economic and cultural status. It is clear that account must be taken of these divergences in any estimate of general welfare. But at their full surface significance? Not necessarily. For if it be admitted that within the capricious, fluctuating, temperamental Jones there is a normal Jones who registers 'true', so in any estimate of basic group-welfare we may let these minor divergences cancel out. This does not, however, mean that differences of stock are to be left out of account in considering the claim of eugenics to promote welfare, or that an identical standard of living is prescribed for townsman and countryman, mental and manual worker. But it signifies that, taking any social group, we shall expect to find a general body of agreement upon the basic values, and a conception of social welfare in which these values form the chief factors. This will be consistent with a good deal of adaptation and compromise

in adjustment to the needs of particular occupations and environments within the group-area.

§ 4. But even when we have eliminated from our standard those variations and eccentricities which do not express the normal character of the personality or group, are we yet in a position to assume such congruity between the 'desired' and the 'desirable' as will enable us to erect a valid standard of welfare? It may be urged that the actual standard of values operative normally in individuals' lives often differs appreciably from their 'ideals'. *"Video meliora proboque, deteriora sequor."* Their 'real will' may incorporate a higher, more spiritual, more unselfish standard than their operative will. We may, indeed, agree that under normal circumstances human beings, like other animals, are rightly guided and impelled by instinctive urges, or by reasonable choice, to follow their true interests, and that since their bodies and minds are closely similar in structure, this following of desires will, up to a certain level, testify to a general standard of human welfare. For physical survival of the individual and the species a high measure of correspondence between the current desires and 'the desirable' is maintained. The instinctive urges are directed to this end. They provide, as we have recognised, conditions not merely of survival but of evolution of higher structures. How far this natural equipment may carry towards social structure and conduct, is thus illustrated in a remarkable commentary upon ant-morality by Lafcadio Hearn.[1]

> Only in a vague way can we conceive the character of ant-society and the nature of ant-morality; and to do even this we must try to imagine some yet impossible state of human society and human morals. Let us, then, imagine a world full of people incessantly and furiously working — all of whom seem to be women. No one of these women could be persuaded or deluded into taking a single atom of food more than is needful to maintain her strength; and

[1] Quoted by Carver, *The Economy of Human Energy*, p. 82.

no one of them ever sleeps a second longer than is necessary to keep her nervous system in good working-order. And all of them are so peculiarly constituted that the least unnecessary indulgence would result in some derangement of function. . . .

Most of us have been brought up in the belief that without some kind of religious creed — some hope of future reward or fear of future punishment — no civilisation could exist. We have been taught to think that in the absence of laws based upon moral ideas, and in the absence of an effective police to enforce such laws, nearly every body would seek only his or her personal advantage, to the disadvantage of everybody else. The strong would then destroy the weak; pity and sympathy would disappear; and the whole social fabric would fall to pieces. . . .

These teachings confess the existing imperfections of human nature; and they contain obvious truth. But those who first proclaimed that truth, thousands and thousands of years ago, never imagined a form of social existence in which selfishness would be *naturally* impossible. It remained for irreligious Nature to furnish us with proof positive that there can exist a society in which the pleasure of active beneficence makes needless the sense of duty — a society in which instinctive morality can dispense with ethical codes of every kind — a society in which every member is born so absolutely unselfish, and so energetically good that moral training would signify, even for its youngest, neither more nor less than waste of precious time. To the evolutionist such facts necessarily suggest that the value of our moral idealism is but temporary; and that something better than virtue, better than kindness, better than self-denial — in the present human meaning of those terms — might under certain conditions eventually displace them.

Whether Hearn is right in positing for human society, as interpreted by evolutionists, the same ideal of complete subjection of the individual to the race as is achieved in the ant society, is highly disputable. Free progressive individuation, if not the whole 'purpose' of human evolution, is assuredly an integral element, and few would accept as the ideal of a human society that absolute self-sacrifice attributed to the ants. But that nature has implanted and evolved in man also a substantial correspondence between his personal welfare, as expressed in his desires and aims,

and the welfare of his society, present and future, may well be admitted. This correspondence is not, however, confined to a set of accurate instinctive urges, as with the ants. The adjustments requiring to be made between the claims of individual 'good' and social 'good', in continually changing circumstances, bring up for man situations called 'moral problems' which are absent from the absolute dominion of society in the ant-economy. Absolute instinctive subjection to a complete social régime eliminates all problems. For man there are conflicts, not merely between the individual and society, or the race, but between the urge of immediate separate desires and that of his more reasonable self, seeking an economy of action which shall be at once better for him and better for society.

§ 5. For primitive man living upon a low physical level of subsistence, nature must have imposed rules of conduct for the survival of the family or local group almost as absolute and automatic for the individual man as in the more highly developed ant-society. But when man got so far the better of his environment as to accumulate a growing surplus of time and energy beyond the expenditure for mere survival, and in so doing became a reasonable animal, there arose a crop of moral problems relating to the disposal of this surplus. Actuated by immediate urges of desire, he might squander in idleness or active dissipation the whole surplus. Or, with more intelligent economy, he might lay out a longer and fuller course of selfish enjoyment. Or, yielding to the social feelings, or to some half-conscious racial urge, he might get his own satisfaction largely by doing good to others and furthering the general welfare.

The legend of the Fall of Man dramatised that new level in the evolutionary process when man broke away from the inexorable grip of Nature and insisted upon running an individual career of his own. Still remaining a member of a race, for the maintenance of which he must make provision,

and to whose service he owed allegiance, he claimed outside the requirements of this service the rights of a free man to create a personality for himself. The struggle between these two claims forms the material of unceasing conflict. Temptation, in its definitely moral meaning, is just the urge of the individual self to seize some immediate personal pleasure, or to lay out some purely selfish policy, to the deprivation or detriment of the fuller personal or group life to which we owe allegiance.

Evil and error thrust themselves so forcibly upon our attention, make such urgent calls upon our practical energies, that we are liable to forget that they are exceptions to the general course of human history. Truth is far commoner than falsehood, honesty than dishonesty, or society could not possibly survive. There is a normal, fundamental sanity and race integrity in man which keep him loyal on the whole to his own best interests and to those of society. When, as sometimes happens, the actual urges and desires of men fail to keep correspondence with the requirements of a sound social life, the race dies out. This has happened in quite modern times, when white dominion suddenly thrust upon backward peoples has either introduced new destructive tastes and diseases, or has produced a sort of extreme passive resistance, a *taedium vitae,* that has led to a refusal of reproduction.

§ 6. But in the normal course of history we are justified in affirming of the basic activities of man that there is a high measure of congruity between his actual conduct and that conduct which is socially desirable, between his operative sense of his welfare and the general welfare. How far instinctive dispositions, how far some 'common sense', how far reason, respectively, are instrumental in this harmony is a question that need not here further concern us. If we prefer, we may say that Nature, working through these channels, provides for human welfare. As for what we call

the 'lower values', derived from those activities of body and mind which are common to all men, this harmony carries us a long way towards an accepted standard of welfare. As regards the 'higher values', more individual, more 'conscious', more interesting — though perhaps less intrinsically important — the unique values of personality — how far can we bring them under a single concept of welfare? Is liberty, the provision of free access and opportunity for self-development and self-realisation, the last and only word? Do philosophy, religion, science, art, furnish no objective valuation — no practical ideals capable of acceptance by individuals with divergent tastes, limiting the waywardness of personal tastes and desires, by imposing more or less authoritative canons of the good, the true, the beautiful?

In a time of widespread revolt, like this, when all authority and tradition are in question, it is important to face this problem of the objectivity of values. A considerable amount of agreement exists among hygienists, educationalists, moralists, on matters of physical, intellectual, and moral values. Though hygienists may differ on certain food values, they will generally agree upon certain rules, e.g., that a generous use of fruits and green vegetables is good, that for a sedentary life little animal food is needed, that the regular or considerable use of alcohol is bad: they will agree upon the virtues of fresh air and exercise, and on many other points of physical regimen. Though there will remain many subjects of debate and conflict among moralists even within the diocese of the decalogue, the broad principles of private morality will be common doctrine, not only among thinkers and teachers, but among the body of the peoples in civilised countries, at any rate so far as prohibitions are concerned.

Or take the education test. As education becomes a finer art, there is at once a larger body of agreement and of disagreement among its skilled practitioners. But the growing agreement is on fundamentals, both as regards subjects and

treatment, and it is based upon a closer study of the normal needs and capabilities of children. Indeed, it is in the sphere of education that we best discover the composite character of a standard of welfare. For the education of any boy or girl follows three distinguishable aims. First comes the general culture, the body of knowledge and mental discipline commonly accepted as the equipment of every 'educated' person, irrespective of special tastes or faculties. Next comes the knowledge and training for the special function or profession which the child may be expected to undertake. And, thirdly, due attention should be given to the strictly individual character, the training needed for the satisfaction of particular tastes and the moulding of the unique elements in personality. For education, as for the intellectual life at large, there will, of course, be dissenters even from the more fundamental values, and some of this dissent may carry the seeds of salutary reforms to be incorporated in new and better standards of the future. But at any given time there exist rules and standards of intellectual and moral, as of physical, well-being that express the general criteria of the best qualified judges.

Just here we encounter and must qualify the provisionally accepted statement that the conscience of each person must be the ultimate judge of good and evil. When we are choosing for ourselves, this is the case. But in an ever increasing number of matters, we do not choose for ourselves. We defer to the judgment of others whom we recognise as better qualified than we are. It may, no doubt, be said that this deference is itself in some measure an act of choice. But the point is that in most of the arts and practices that make up the conscious conduct of life, authority outside ourselves does intervene, and by persuasion, or even by coercion, shapes our conduct differently from what it would have been if left to our own private desire or judgment. In every organised society people are choosing not only for themselves how

they will act, but for others, and often for others whom they seek to influence 'for their good' against their immediate inclinations. Those in charge of children and other dependents, philanthropists, reformers, public administrators, exercise the right to overrule the current desires and tastes of their charges in favour of some higher standards.

Human nature in its actual manifestations may tend to vices or excesses in drink, gambling, dissipation of various sorts. In a sense, these may be accounted real values backed by strong natural urges; but social government condemns and curbs them, not merely as injurious to the welfare of others, but as errors of valuation in those who entertain these values. Authority declares for better sanitation than the people want, better instruction, better manners, less drink and drugs, better films, less gambling, and so forth.

This can only be justified by assuming that the 'best qualified' people have the right to impose standards of welfare, and that they can do so by virtue of some sort of consent or assent of the 'government'. All sound government rests upon these two assumptions, first, that some persons are better qualified than others to determine values, secondly, that some recognition of this fact is generally acceded.

There is this testimony to the validity of higher standards, that they have some appeal for those who cannot be said to understand or to desire them in any fully conscious way. The People will accept better standards than their own. All progress comes by assertion of initiative and leadership. Outstanding persons, or groups, thus impose a welfare that outstrips the current desires and approaches the desirable. This sublimation of gregariousness, working by admiration, imitation, and suggestion, is discoverable not merely among the unthinking masses thus brought up to a higher common level of life, but among the educated classes whose 'tastes' and 'morals' are thus welded into some serviceable measure of conformity.

But there are limits to this acceptance of higher standards. By mankind at large the claims made for the exponents of 'the higher life', the prophets of truth, beauty, and goodness on their loftiest levels, have never been admitted. The scholar, the scientist, and the philosopher; the poet and the artist; the saint and the preacher have always been objects of suspicion, distaste, or ridicule, not merely among the ignorant populace, but among 'average sensual men', who in the Anglo-Saxon world, at any rate, are men of affairs, family men, sportsmen, materialists with streaks of sentimentalism and smatterings of purely conventional culture — the Philistines of Matthew Arnold's shrewd analysis. It is easy for a cultured minority to take on superior airs and to return contempt for contempt. But it is more profitable before we give a final verdict to consider whether the Philistine may not have some real ground for his distrust of 'highbrows', artists, uplifters, and abstract thinkers. The reasonable claim for high culture, as arbiter of values, rests upon the wider survey of life as a whole which they possess, the larger range of actual experience. Whereas the uncultured man has no knowledge of the higher values, the votaries of these higher values remain in some contact with the lower levels of life. Philosophers and saints have got to dine, however frugally: they cannot shed their animal natures. Thus they claim to be the only persons qualified by experience to compare the higher with the lower values, and to frame valid standards of human welfare. What is the Philistine's counter-claim? Cultivators of the 'higher values', it is urged, are few, and the consciousness of rarity inflates their sense of their values. The secret urge of self-importance leads everybody to over-value any monopoly of knowledge or ability which he possesses. So the oligarchs of culture over-value their goods and disparage the lower life. Take, for instance, the statement of Professor Perry. "A fruitful theory of value will accept those stable and well marked uni-

ties in which the values of life are already grouped. The great *foci* of interest are science, conscience, art, industry, state and church." [1] What, it may be asked, about love, the family, friendship, health, sports, and amusements? Are not these "great *foci* of interest"? This criticism is coupled with another, which at first sight seems inconsistent with the first, viz., the allegation that the 'higher values' give way to the 'lower values' when they are put to a close test. The philosopher is more frightened and more incompetent in a 'real' emergency than the ordinary man: in family life he is more irritable and exhibits less self-control than other men, is just as particular about his food and other 'creature comforts'. This character is ascribed to all sorts of 'intellectualists', as well as to most artists and professional moralists. They do not carry their higher standards into daily life. Such behaviour, it is urged, betrays a sense of unreality, a want of confidence in the higher life. Moreover, the pathetic admiration which many intellectualists display for success in the practical fields of politics or business enterprise, the marked deference of the professor to the practitioner, seems to attest a protest of the baulked instincts that is of deep significance.

§ 7. A further consideration may be put. We have seen that, as man rises from a primitive animal life, his conquests over environment have placed at his disposal an increasing surplus of energy above that needed for survival and maintenance of the species. As reason displaces instinct, this surplus is utilised more and more for individual needs. Civilisation is conceived in terms of increasing individuation. May there not be a risk to the race in carrying this too far? It has sometimes been urged that high cerebration is physically detrimental to propagation. Whether this be true or not, history affords ample testimony to the failure of persons of reflective intelligence and sensitive nature to reproduce their

[1] *General Theory of Value*, p. 694.

kind. The seclusion of monastic life, sex fastidiousness postponing or inhibiting marriage, and in later days the deliberate limitation of the family most widely prevalent among the highly educated classes, have brought to extinction many of the most gifted strains. Eugenists deplore this fact, but seldom recognise that it may be nature's protest in the interest of the species against excessive cultivation of the mind. May there not then be some racial protective value in the extrovert or Philistine distrust of high intellectual culture and supersensitive morality?

These reflections, however, need not, indeed cannot, lead us to reject the claim of educated persons to be better arbiters of value and better exponents of human welfare than those with little intellectual or spiritual cultivation. In spite of the popular resentment at intellectual and moral 'swank', there is a growing acknowledgment alike by populace and Philistine of levels of thought and conduct somewhat higher than those in which they live. Most uneducated parents want some education for their children. As for moral standards, most people want to do 'right' most of the time, and accept and even profess ideals a little beyond their understanding and practice.

How far does this movement make for a common standard of humanity? Likeness in interests and values is increasing over wider areas of populations with the spread of the technical arts of civilisation. Our machine age not only assimilates mankind in external ways of living. It assimilates the minds of men. As Count Keyserling points out, "the old cultures perish in that in the new psychological disposition of the human race, the transferable dominates the untransferable",[1] that is to say, the generally 'intelligible', accepting a common objective standard of appeal, displaces the traditional, a-logical, the older national and group cultures, religious, ethical, æsthetic, imposing a common civili-

[1] *The World in the Making*, p. 142.

sation of which "the chauffeur intelligence" is the typical exponent.

§ 8. Common humanity is visible in machinery, in political and economic government, ever more intricate and over wider areas, in hygiene, the substitution of universalism for nationalism in the arts and sciences, and a growing rationalism in morals and institutional religion. All this is a natural result of the rapid transferability of thought and knowledge which marks our era. Human nature was always much the same in its fundamental structure and operation. World civilisation is engaged in undoing the racial and local diversities of living, and therefore of thought and feeling, due to particular environments. This standardisation, inevitable as it appears, strikes despair in the hearts of our more sensitive intellectuals. It seems to them the destruction of personality.[1] But is this necessarily the case? For if the basic interests and needs of human nature are much the same, while the diversities, due to different material environments, are shrinking with the standardisation of those environments, there is a natural enlargement of what may rightly be termed the domain of common humanity. The extension of this domain is not merely not hostile to personality, it is a positive condition of growing personality upon the

[1] "We must not imagine that thoughtful Americans are unaware of the peril which is threatening mankind, but it is too much to expect them to sacrifice their mankind: for they give production priority over everything else. Having refused to save the individuality of the factory worker, they shift their defence to other grounds. During the day the worker may be only a cog in the machine, they say: but in the evening he becomes a man once more. His leisure, his money, the very things which mass production puts at his disposal, these will restore to him the manhood and intellectual independence of which his highly organised work has deprived him. This change in the centre of gravity of the individual marks an absolute revolution in the ideas on which society in Western Europe has been built up. Can it be possible that the personality of the individual can recover itself in consumption after becoming so crippled and weakened in production?" — Siegfried, *America Comes of Age*, p. 349.

higher levels. When we come closer to the discussion of the specifically economic character and effects of standardisation, we shall recognise that even in the economic sphere it need not curtail and should expand the place of individual taste and activity in production and consumption.[1] Here in discussing the broader significance of the problem, the effect upon the general economy of values conceived as "desirable consciousness" or welfare, we can detect no real hostility between expanding uniformity and expanding diversity, where it is manifest that the former is a prime condition of the latter. If mankind in general is ever to share on reasonable terms of equality the opportunities of free personality in its higher reaches hitherto confined to the few, this is only attainable by putting an increasing portion of life in its lower levels upon a basis of secure uniformity. The athlete does not lose the zest of achievement but gains by reducing the elementary processes of his activity to a strict routine. So it is with every skilled and interesting function: by converting interested skill at the bottom to automatism, we gain on the higher levels. Only in this way can personality be enlarged and raised to finer expressions.

§ 9. So, accepting the general standards of the society in which we live, we may 'lay out' for ourselves personal standards of life in terms of career or character, according as we are extroverts or introverts. Or we may not 'lay out' at all, but 'take life as it comes', in the spirit of opportunists. Most civilised men blend these attitudes towards life, laying out plans, but not too precise or too far ahead, with some concern for character and conduct but little for their 'souls', and not setting themselves closely to any 'standards', because they perceive or feel that 'standards' do not really stand, but require continual readjustment.

What is sometimes condemned as opportunism or lack of principle is really a not quite intelligent but none the less a

[1] Cf. Part IV, chap. 5.

sound grasp of the art of life. It is the business of science to erect standards, of art to use them for departure platforms. For the artist of life, life is an adventure, but not a blind adventure. In one respect his art differs from other fine arts. The material they handle is stable, however refractory. Their adventure is the discovery of what they want to do with it when they are doing, when the creative urge is actually at work. The more they know of the materials and conditions of their work, the science with its standards in the background of their mind, the better for their art. They may use their science consciously in planning out their work, but in the execution, it necessarily stands aside. For science cannot directly obtrude upon creation. Now the artist in life, whether a personality dealing with the circumstances of his career, a politician handling some problem of state, a group or nation groping after some new way of life, is also struggling to express the creative impulse, the directive activity within, by moulding the situation in which he finds himself. Moreover, most of his material is closer to him than the material handled by other artists. For the situation which he handles is in large measure himself, his own nature, his passions and desires, his own aptitudes and capabilities, the very make-up of his personality. The social and physical environment which enters into the situation he handles is not more to be regarded as the material of his artistry than are these factors of his personal make-up. Such situations are never static, they are changing all the time. Not all the ordered knowledge of his environment, or the records of his own and others experience, can give him full confidence in handling any of his human problems. For history never repeats itself exactly, nor is human nature an entirely static stuff. We must, therefore, beware of claiming more for the finest and most disinterested social science than the changing conditions of life permit. In other words, social science, in setting its serviceable but provisional standards

for the conduct of individuals or societies, is compelled to frame its 'laws' upon two assumptions neither of which is altogether true. The first is that the 'novel' in event, situation, and character may be ignored: the second is that human nature is uniform. It is not, of course, that scientists dispute the existence of novelty and diversity, but that, as scientists, they are incapable of dealing with these elements. It is the artist who handles the novel and the particular. For the scientist as such the creative urge and process do not exist. But the artist cannot dispense with science if, as his function implies, he is to enter as an active agent into the creative process. In order to mould the future, you must understand the past; in order to handle the particular case, you must know how far it conforms to and diverges from the general. Moreover, as we have recognised, though the novel and the exceptional play a striking part in the human drama, the stable and the normal are larger and more fundamental factors. While, therefore, human life and institutions are continually changing in their higher levels, and new activities, interests, and values emerging, the deep-rooted urges and satisfactions based on organic structure remain virtually unchanged. Civilisation may and does repress some of the cruder expressions of these urges, or 'sublimates' them, and many of the dangers and defects of civilisation are due to lack of scientific guidance and of artistic skill in making these adjustments.

Concerned, therefore, as we are with standards of human welfare, we shall not be deterred by those who would insist that individual welfare cannot be brought under standards. Rather shall we insist upon the similarity, solidity, and continuity of the factors that constitute welfare, whether of the individual or the group. The finest flowers of personality grow from a common soil and in a common climate. Standardised associations, economic, political, spiritual, 'social', and others, need not repress personality but can furnish the

liberty and opportunity for the evocation and nourishment of individual genius and efficiency. Civilisation, indeed, is engaged in a two-fold and at first sight contradictory work. On the one hand, it is engaged in eliminating risks, providing physical and moral security, and evolving safe standards. On the other hand, it is engaged in launching mankind on higher levels of adventure and in wider fields. The limits both of security and of adventure are constantly shifting, but to some extent in planned and calculable ways. The object always is to reconcile and in a degree to harmonise security and progress. The reconciliation and the harmony can never be complete. Even absolute physical security is not to be desired. The search for it breeds hypochondria. So with intellectual and moral security, the straining after a complete system of thought or an absolute rule of life produces spiritual hypochondria. Human welfare, therefore, will involve a continuous process of changing the standards. As in all arts, the 'purpose' or 'objective' is not a clearly preconceived one, but is disclosed and even formed in the 'doing'. New standards are thus discovered, though there is reason (thoughtful informed economy) in the process of discovery.

The distinction drawn here between those elements of welfare which are common to mankind and those which are strictly personal will be found of importance as we proceed to develop the relations of economic to human values. For the organised economic society is mainly concerned with the common elements of welfare and only indirectly, though not unimportantly, with strictly personal values.

In estimating the actual conduct of a person from the standpoint of the desirable, we discover three types of error, the seizure of the reins of conduct by some single dominant desire in defiance of the organic harmony of the whole nature, the taking of short-range estimates of what is worth while, and the preference of the selfish to the social urges in

the play of conduct. These errors are often fused when some strong animal passion stampedes the personality into unconsidered action. But the distinctions are worth bearing in mind, for they have application in the sphere of group or community life. History is rife with instances where fear, hubris, or hate, rushes nations into wasteful or destructive ways. So likewise the narrow selfishness of small group-life everywhere cramps the progress of humanity, the preference of our city to our country, our empire to the world, in matters where the wider is the truer economy. Still more damaging is the pressure of present group interests and desires to the detriment of posterity, in the utilisation of the material and moral resources at their disposal.

The art of human welfare in its full relation to the population of the earth and the civilisation of the future is only beginning to dawn upon the modern mind as the chief duty of man.

# CHAPTER V

## THE HIERARCHY OF VALUES

§ 1. I have spoken of higher and lower values, higher and lower levels of values. But values are not wholly independent things; the interests they express or the desirable consciousness of which they consist are more or less harmonious groups. Some values will enter into more than one grouping. Take the desirable life, or welfare, of the athlete, the business man, and the scholar. Bodily vigour will and should figure in all three, but as a conscious aim it will usually bulk bigger in the athlete. 'Knowledge of the world' and tact in handling men are more important elements in the standard of the business man than in that of the athlete or scholar. The scholar's welfare will contain far more of the strictly intellectual goods.

This signifies that a value, or the interest it serves, does not stand alone and cannot be rated as a separate entity. As value, it affects and is affected by the other values in its group or standard. The attempt to separate values from their companions in a group involves nothing less than a breaking up of the unity of personality. Human activities, their interests and values, are indeed grouped on two distinguishable principles. The first is the strictly organic harmony by which body and mind as wholes, and as a whole, work together. Here are the groupings of values which attend the activities of the *mens sana in corpore sano*. These groupings are 'natural' in the sense that they are rooted in the organic structure or make-up of man, apart from his personal choice and direction. The second principle of value

grouping comes from human purpose, the way of life chosen by, or put upon, a person which leads him to arrangements of activities in which the strictly organic groupings figure as conditions to which his planned conduct must more or less conform. Reason and will operate in this second harmony or grouping towards some modification of the organic life as such. In any attempt, therefore, to assess values, we must approach them as operative complexes.

It is an undue pressure of the scientific claim, of the analytic method, that induces social students to the view that two values can be taken out of their composite and compared with one another. This error is illustrated in Mr. Maciver's treatment.

"Every interest is in the end a practical interest, determined, that is, by a sense of value. Further, all values are *in practice* comparable. No abstract measuring rod can be found, but no person can act at all unless he can choose; the necessities of life and character are necessities of choice. When community differentiates, when social claims are no longer simple but manifold, the necessity of choice is deepened. The widened claim of sociality is an intenser demand on individuality. But the whole social situation implies that values are comparable, that is, are forms of a single value." [1]

Now I have two quarrels with this statement. Undoubtedly choice implies comparison. But the comparison, as I see it, is between one organic group of values and another. In a later chapter I shall illustrate this claim by dealing with economic standards of comfort. But every choice *in* life is a choice *of* life, of one life as against another, one organic complex of values as against another. Secondly, these complexes of values are not to be regarded as forms of a single value, i.e., to be estimated as purely quantitative differences. One way of living, i.e., one group of values, is preferred to another as better, not bigger. Preference is for a

[1] *Community*, p. 313.

difference in kind, not in quantity. There is not a single value but various value-groupings. Civilisation in a people, culture in an individual, consists in substituting higher for lower standards of values. The same elements (values) may appear in a higher as in a lower grouping, but their different proportions will make a different combination, the higher combination showing novel qualities. This, of course, is the now familiar doctrine of creative or emergent evolution, more plainly discernible in human life than in any other part of Nature, because in human life the directive activity that is creative shows itself more and more in conscious nisus. The higher unities, or wholes, which appear in the inorganic world as more complex chemical structures with new properties, or, in the merely organic world, as higher structures with new functions, appear in human history as new and more complex organisations of activities, interests, values.

If we are, then, to envisage welfare in a hierarchy of values, standing not separately but in organic compositions, how far can we treat this hierarchy as objectively valid for all sorts of men or of societies?

It is easy to obtain assent to the proposition that the intellectual and the spiritual life are 'higher' than the life of sensations, in the double sense that in these higher lives the physical will play a subordinate part, and that the 'higher' complex will be more delicate in structure and subtler in the consciousness it carries. The 'higher' life, whether of intellect or 'spirit', is an enlargement or enrichment of 'self' involving the whole personality. Of the lower life, of the 'materialist', the 'sportsman', the extrovert in general, we say that he is not living fully, because there are whole tracts of life unknown to him. Moreover, the 'self' he cultivates is a narrower self. Such sociality as he enjoys consists of merely superficial contacts and coöperations. The life of intellect, or spirit, takes us outside of ourselves. It brings us

into intimate relations with the inner life of others, engages us in a communion of searchers after knowledge, scholars, artists, saints. We have seen how difficult it is to decide between the claims of the Good, the True, and the Beautiful, in the composition of welfare, or the desirable life, and that language attests a common character in this appeal. Harmony, sympathy, consistency, ideals of the several interests, differ little in their significance. We need them all for a desirable life. But it may be urged that the force of their appeal, the human interest they evoke, must in all cases appear in some height or intensity of emotion. Sympathy with another's joy or sorrow, the glow of feeling for a 'noble' deed, the rapture which great music can give, the enchantment that accompanies some new large vision in the world of thought — how can we appraise these peaks of consciousness, except in terms of emotional value. But even so some will rate one of these emotions higher than another. We still have the preference of the cultured æsthete, the philosopher, the saint, to reckon with. No agreed decision is, perhaps, possible as to the hierarchy of values. But I shall hazard a criterion which is ultimately based upon the 'racial' or 'specific' trend of organic evolution. If Nature makes so much nisus (directive activity) towards the preservation and growth of a species, and if social coöperation plays the distinctive part it seems to do in human survival, then it may be argued that the highest value attaches to the conduct and the emotions which sustain society in the elaborate structure it has attained, and assist it to further useful modes of coöperation. This will seem to furnish a criterion for Human Welfare in its higher reaches by stressing the feelings, beliefs, interests, activities, and institutions, which bring men into closer, conscious, willing coöperation for as many different sorts of work as possible, or, put otherwise, which enrich the human personality through the largest measure of sociality.

This conclusion should, I think, satisfy most of those who

seek to regulate the economic life of a society by the application of the concept of functional society. For, rightly ordered, such a society would be one whose service would be perfect freedom, the will of the members coöperant towards the well-working of the whole. Whether this well-working finds its 'value' in any state of happiness or consciously desirable state, or simply in well-working on its own account, will be a matter of personal preference among philosophers in defining the 'purpose' or 'end' of human activities.

# PART II

# ETHICS IN THE EVOLUTION OF ECONOMIC SCIENCE

# CHAPTER I

## THE PLACE OF INDUSTRY IN THE LIFE PROCESS

§ 1. Endeavouring to get as clear a meaning as we can for human values and the welfare they constitute, we have come to associate them with the two related concepts, Personality and Community. Whether the sole end or purpose of the social activities and institutions that form Community is the growth and enrichment of Personality, or whether Community may also be regarded as a collective conscious being with values of its own, is a question to which we are not here bound to give an answer. For whether all welfare is ultimately reducible to desirable individual consciousness or not, it is certain that the enlargement of such individual welfare is dependent upon, and in chief part derived from, the development of Community. When, therefore, we enter upon our task of relating economic values to human values, as part to whole, we are immediately confronted with the necessity of giving an account of the place which economic activities and institutions occupy in the all-embracing sphere of community. For, whatever meaning be given to economic values and welfare, society and its institutions enter in as determinants and agents. Man as a completely isolated economic being is not conceivable. Crusoe was not such a being. He was the inheritor of countless generations of social economic culture. How far primitive man was gregarious in all environments is an interesting theme of controversy among anthropologists. But there can be no reasonable ground for denying to the human family the name of

social institution, and it certainly contained the nucleus of an economic organisation.

I do not propose to discuss at any length the doctrine of the economic determination of all social institutions, as professed by strict adherents of the Marxian school and by some economists outside that school. For what plausibility attaches to that doctrine rests upon an extension of the meaning of the term economic to cover the whole field of biological activities. If you premise that all forms of the physical and psychical activities of man consume energy that must be replaced by food, since food-getting is an economic process you may claim positive proof of the economic determination of history. But all you have really proved is that food is a necessity to human life, and that all other activities and institutions must be consistent with the activities and institutions of food-getting. You do not prove, either that food-getting is the only necessary activity, or that its urgency is such as to mould all other activities to its need. For biological survival and growth there are other activities related to sex, care of offspring, the acquisition and exercise of skill and knowledge, group protection, etc., which lie outside any accepted meaning of the term economic. Food, shelter, and other products of 'economic' activities are necessary adjuncts to those other activities, but these latter have their separate origins in the inherited structure and character of man. Thus only by stretching 'economic' so as to make it coterminous with biological can an appearance of validity be given to 'the economic determination of history'. Even so this school of determinists would have to reckon with sociologists, like Professor Hobhouse and many others, who do not admit the exclusive claims of biological factors in the determination of human values, but find an evolution of mind which in its higher levels is liberated from the survival economy.

But this rejection of the extreme claims of economic de-

terminism by no means leads us to refuse recognition to the large, often predominant part played by distinctively economic motives and activities in shaping all other human activities, even those that seem at first sight most remote from economic influences. The famous formula of Le Play — Place, Work, Family (or Folk) — derived from prolonged study of actual situations, furnishes a far more serviceable introduction to our enquiry. That men, as individuals and as families, are affected in their ways of living and of thinking by the kind of work they have to do, and that the kind of work is, at any rate in primitive society, determined mainly by the soil, climate, flora, and fauna of the country where they live, are undeniable propositions.

Le Play's formula, with the modern developments it has received from the works of Professor Geddes and Mr. Branford, goes a long way towards establishing the claims of economic activity as the key to the natural history of human society. For if it be maintained that the Le Play formula places on a basis of equality the geographical, biological, and economic factors, it is the third of these, the work, that stands out as the active force. This appears quite clearly if for this simple triad we substitute the more formidable terms Environment, Function, Organism. It is the activity of the organism in the given environment that counts for history. True the mode of activity may be said to be determined by the relation of organism to environment, and, pursuing the matter further, the structure of the organism may be considered in large measure the product of the environment through natural selection. But though, thus regarded, the three may be treated as equal inter-agents, Place making Folk and in turn modified by Work, Folk made by Work and making Work to meet its wants, Work moulding character and ways of life, it is the latter process that must claim preëminence in the history of man. Place and Family (or Folk) rank more as conditions, not inert but determinant

conditions, of the active element, the Work which expresses whatever purpose or direction is found in history. [1]

The sociological studies of man in his actual environment and occupation give a just prominence, or even predominance, to the economic function as determinant of domestic and group habits and institutions. For, though other urges, or instinctive dispositions, operate upon conduct sometimes independent of, sometimes hostile to, the economic drive, the latter will always make its steady pressure felt upon what originate as non-economic activities, often, as in politics, subjugating them to its own ends. This interaction of the three factors is not, however, a complete account of life in its prime constituents, if 'work' be taken merely as 'the economic factor'. For man influences his environment by the whole of his physical activities, not by 'work' alone, and the extent and variety of this influence is not adequately represented by any mere adaptation of the Le Play formula. "Each kind of organic creature selects and uses in different degrees the different elements and situations of the common world of them all and thus *makes* an environment for itself. For environment is not simply the external world, but the external world as it is related to life." [2] All the activities of life are thus represented in the moulding of what Le Play terms 'place' to the purposes of an organic environment. The wider environment thus made by man is itself unity in diversity. "Each life is environed at once as an organic body, by an outer physical medium of the organism, by other lives likewise incarnated, and by the social order which together they create." [3] In most primitive societies,

[1] This truth is obscured by the setting sometimes made by the modern Le Play school. For example, Geddes and Branford write, "The observer maps the facts of these sequences — Grass–Sheep–Shepherd; Forest–Game–Hunter; Arable–Corn–Peasant; and so on for each of the occupational types." — *The Coming Polity*, p. 183. But 'Work' is not properly represented by Sheep, Game, Corn, but by 'Shepherding,' 'Hunting,' 'Tilling.'

[2] Maciver, *op cit.*, p. 376.

[3] Maciver, *op cit.*, p. 376.

though economic work often occupies a smaller part of a man's time and energy than in civilised societies, its mould and influence upon his ways of life, thought, and feeling is most clearly discernible. It is reflected, not only in family and class structure and the rudimentary politics, but in the blends of art, magic, and religion, the rituals and the tabus through which the dawning imagination and the sense of wonder find expression. It is not among primitive men alone that religion is directed towards conciliating the unseen Powers which rule the weather and the generative processes. All through history to the present day those who live and work in close direct contact with Nature are similarly affected in their mentality: their work is the direct and dominant element in moulding family, class, or political group, and in determining the rudimentary conceptions and practices of art, science, morals, and religion. No longer living in close, local isolation, their customary ways of life and thought are affected by outside influences, but remain *au fond* the naïve expressions of biological and mainly economic needs. Though the occupations in the quest of food under primitive conditions offer the simplest examples of the influence of definitely economic work upon the general life of man and community, a similar analysis can be made of the dominance of economic activities and motives upon the structure and working of social institutions in more developed and strictly civilised conditions. To this analysis Mr. Veblen has directed some of his keenest and most illuminating thought. For economic determination is traceable not only in particular instances where some economic motive or idea is woven advantageously into a strand of policy or a religious propaganda. He finds in the tensions of thought and feeling, natural or inherent in the prevailing mode of work, the keynote to the whole mentality of the society. Among rural communities Mr. Veblen distinguishes the more settled agricultural peoples from the

more predatory pastoral peoples. In the former he finds "little coercive authority, few and slight class distinctions involving superiority and inferiority; property rights are few, slight, and unstable; relationship is apt to be counted in the female line. In such a culture the cosmological lore is likely to offer explanations of the scheme of things in terms of generation or gemination and growth. The laws of nature bear the character of an habitual behaviour of things, rather than that of an authoritative code of ordinances imposed by an overruling providence. The theology is likely to be polytheistic in an extreme degree and in an extremely loose sense of the term, embodying relatively little of the suzerainty of God." "The matters of interest dealt with in the cosmological theories are chiefly matters of the livelihood of the people, the growth and care of the crops, and the promotion of industrial ways and means."[1] The predatory pastoral peoples on the other hand "will adopt male deities in the main, and will impute to them a coercive, imperious, arbitrary animus and a degree of princely dignity. They will also tend strongly to a monotheistic, patriarchal scheme of divine government; to explain things in terms of creative fiat; and to a belief in the control of the natural universe by rulers imposed by divine ordinances. The matters of prime consequence in this theology are matters of the servile relation of man to God, rather than the details of a quest for livelihood."[2]

Not less distinctive are the impressions made upon the general body of thought and institutions by the growth of town life and of the handicrafts attached thereto. The primacy in processes of production thus passes from the generative and germinating activities of Nature to the personal skill and industry of individual man in handling inert material.

"The technological range of habituation progressively

[1] *The Place of Science in Modern Civilisation*, p. 47.
[2] *Idem*, p. 48.

counts for more in the cultural complex, and the discrepancy between the technological discipline and the discipline of law and order under the institutions then in force grows progressively less. The institutions of law and order take on a more impersonal, less coercive character. Differential dignity and invidious discriminations between classes gradually lose force." [1]

As trade, or a more regular and extensive trade, marched with this technique of town industry, habits of appraisal and bargaining went to develop initiative and cunning, and liberty of contract became a dominant conception. Both on the technological and on the commercial sides there is a break-up of the old moulds of custom, and novelty and enterprise give a new dignity and interest to the economic life.

But agriculture continued to be the chief occupation and the era of handicrafts was an era of small local markets. It remained for the age of machinery and power, the Industrial Revolution, to make a rapid and a nearly world-wide transformation in popular thought, feelings, and institutions. Regarded from the economic starting point, it was the impersonality of the machine industry that counted most, together with the immense impulse to all the physical sciences that could bring grist to the mill. The initiative and interest of work in machine industry and its attendant trades were concentrated in the head and hands of a few great entrepreneurs and managers, and accuracy of quantitative measurements took over the former functions of manual skill. Organisation and standardisation for large markets have become more and more the *mots d'ordre,* involving for the ordinary man a thinking in terms of regular process rather than of workmanlike efficiency. His life, as worker, is narrowed to a routine; as consumer, his formal freedom is greatly enlarged in the number and variety of goods available for his purchase, but the levelling influence of mass con-

[1] *Idem,* p. 49.

tiguity, itself the concomitant of mass production, stamps upon him the equality of taste and the common standard of living so clearly discernible in great city life.

§ 2. Thus in various ways the new technology is transforming thought, feeling, and valuations. Though the number of those closely and consciously addicted to scientific thinking and research is comparatively few, the sense of regularity of process and of fixed causation, a new determinism, has spread widely among the common people, secretly undermining the ideas and sentiments of chance and Providence, and claiming for the whole of life a mechanical intelligibility. There are, of course, counter-currents and by-currents, signs of a new freedom of thought turning upon the mechanisation of the mind with a challenge, and developing a science of psychology to aid the cause of liberty. But, in general, the economic forces during the past century have manifested a quite undeniable influence on human mentality as applied to politics, art, literature, morals, religion, and science itself. Of religion it has been well said that "it is only those whose livelihood depends on that which is inexplicable to them — the weather, for instance, in the case of sailors and peasants — who hold fast to a traditional faith, while factory masses increasingly fall away from it." [1]

§ 3. But before developing this theme it is necessary to lay down as clearly as circumstances admit the meaning we propose to give to 'economic', as applied on the one hand to activities and institutions, on the other to the organised body of thought dealing with this subject matter. This is no easy task. For if we take for our guide the terms 'economy' and 'value' in their broadest signification, bringing into our purview all human efforts and satisfactions, we identify economics with the whole field of the social arts and sciences. If, on the other hand, we adopt the ordinary 'business' standpoint, accepted by many economists, of confining economic

[1] Keyserling, *The World in the Making*, p. 131.

processes and products to the making, carrying, selling, of material goods in markets, we get into other difficulties. No small part of our trouble is attributable to the fact that only in quite recent times did economic activities separate themselves sufficiently from other human activities as to present themselves as a subject for special consideration. The processes which we now regard as definitely economic, the production and disposal of food, clothing, shelter, furniture, tools, and other material objects of desire embodying human work, were mostly performed within the 'communism' of the family, or sometimes of the larger local group, and might be regarded indifferently as belonging to the 'polity' or the 'economy' of the group, or perhaps better as an integral part of the biological struggle for individual and group survival. Even when town life with its early division and specialisation of labour, its markets and other mechanism of commerce, came into being, these trades were closely linked up with the broader polity of the city or the state. Not only were they subject to political controls, but as branches of moral conduct they fell under the even closer supervision of ecclesiastical authority. These controls, exercised in most countries up to comparatively recent times, prevented what we now regard as an economic system, requiring for its understanding and guidance a specific science and art, from coming into separate existence. The thinking done by statesmen and other students of public affairs included 'economics' in their wider survey.

# CHAPTER II

## THE EMERGENCE OF ECONOMICS AS A SCIENCE

### I

§ 1. A striking testimony to the early merging of economics with the general activities of men and communities is afforded by the current terminology of economic science. A number of its most important terms present a shrinkage from an earlier, wider connotation. The term 'wealth' had a larger human significance in the sixteenth century in the Prayer for the King in the Prayer-book containing the words, "Grant him in health and wealth long to live". 'Goods' is a materialistic narrowing of a distinctively ethical word, still surviving in 'good life', and more broadly human in 'a good time'. Though property still retains a larger philosophical significance, juristic economics has firmly stamped it with its modern characteristic meaning. But most significant of all is the economic seizure and possession of the pivotal term 'value'. "The word value," writes J. S. Mill, "when used without adjunct, always means in Political Economy, value in exchange." Such shrinkages of meaning are associated with the severance of economic activities from the general complex of activities in the Family, the Guild, the Commune, the City. It is natural that this specialisation of language should accompany the process of gathering and assembling a number of partial fragmentary studies into an economic science.

It is of especial importance for our study to realise the early subordination of what we now term economic to wider considerations. Though fragments of economic

thought and teaching are embodied in Babylonian, Assyrian, Egyptian, Chinese, and other revelations of primitive wisdom, the earliest body of economic doctrine is attributable to Greek thinkers and grew out of their moral and political philosophy.[1] The conscious subordination of economics to ethics is indeed a presupposition of Plato and Aristotle. In the *Laws,* Plato names three things that are of concern for man, Mind, Body, and Estate, placed in this order of importance, and the last covered all that then belonged to organised economic life. This subordination of the economic was further emphasized in the ethical doctrine of Virtue as a Means. For with Plato, 'wealth' in the sense of large possessions and 'intemperance' seem to consort with one another. The 'simple life' accords with wisdom. A man's external 'wealth' should be "such as to be in harmony with his inward wealth".[2] Aristotle, on the other hand, recognises advantages for 'wealth'; property is always rated by him as a means to 'a good life'. Leisure and liberality require a reasonable amount of this world's goods. To both thinkers money-making by trade or usury (banking or investment) was an utterly contemptible practice. From this attitude of oligarchical philosophers, the later, and, in some respects, more liberal schools of great thought made no considerable departure. Epicurean and Stoic alike appraised property and economic activities according to some higher principle of life, whether it was the joy of living, or the more austere conception of a life 'according to Nature'.

§ 2. In the medieval order, when religious and political authority, sometimes accordant, sometimes discordant, claimed to regulate every department of social and private life, economic activities naturally fell under a hierarchy of values. Emphasising the spiritual power as the distinctive organising influence in medieval life, Mr. R. H. Tawney

[1] James Bonar, *Philosophy and Political Economy,* p. 5.
[2] *Idem,* p. 14.

writes: "The most fundamental difference between medieval and modern economic thought consists in the fact that, whereas the latter normally refers to economic expediency, however it may be interpreted, for the justification of any particular action, policy or system of organisation, the former starts from the position that there is a moral authority to which considerations of economic expediency must be referred." [1] Up to the time of the Reformation the Roman Church with its Canon Law and Decrees claimed to exercise this moral authority. Nor did it disappear with the Reformation. For at least a century and a half after the Reformation the leaders of the principal Protestant churches continued to exercise this regulative power over business operations. "In the sixteenth century religious teachers of all shades of opinion still searched the Bible, the Fathers, and the *Corpus Juris Canonici* for light on practical questions of social morality, and as far as the first generation of reformers was concerned, there was no intention among either Lutherans, or Calvinists, or Anglicans, of relaxing the rules of good conscience, which were supposed to control economic transactions and social relations. If anything, indeed, their tendency was to interpret them with a more rigorous severity, as a protest against the moral laxity of the Renaissance, and, in particular, against the avarice which was thought to be peculiarly the sin of Rome." [2]

One of the most interesting and entertaining chapters in the history of modern thought is that dealing with the process by which the ethical doctrine of the Protestant Churches shed the safeguarding of social conduct and the conception of a spiritual community which possessed the medieval Church, and converted their ethics into an almost servile instrument of utilitarian individualism. Puritan morality prepared the way. "In their emphasis on the moral duty of

[1] *Religion and the Rise of Capitalism*, p. 39.
[2] *Op. cit.*, p. 85.

untiring activity, on work as an end in itself, on the evils of luxury and extravagance, on foresight and thrift, on moderation and self-discipline and rational calculation, they had created an ideal of Christian conduct, which canonised as an ethical principle the efficiency which economic theorists were preaching as a specific for social disorders." [1]

§ 3. It was far more than a mere coincidence that the rapid external evolution from primitive agriculture, small town industries, and local commerce into modern capitalism, with its factory and power production, its elaborate finance and its world commerce, should synchronise with the decay of the spiritual authority of the Churches and the transvaluation of moral values which accompanied it. Without accepting the cruder Marxian explanation of this moulding of moral doctrines and institutions to meet the requirements of the dominant economic class, it is unquestionably true that the rising bourgeoisie, the new business classes, aspiring to wealth, social importance, and political power, did utilise half-consciously but quite effectively the moral aids which organised religion was willing to offer, so as to clothe the new industrial, commercial, and financial methods with a garb of spiritual reputability. In the increasing ferment of interested and disinterested thought, stimulated by rapidly expanded knowledge of the world, and of human powers to utilise this knowledge for a fuller material and intellectual life, the conflict of new ideas and valuations led to the survival of those best accommodated to the interests and aspirations of the classes possessing the will-to-power.

Though there was no formal abandonment by the Protestant Churches of their spiritual authority over the conduct of business — a religious man must still carry his religion into his daily life — there was a tacit withdrawal from the enforcement of principles which conflicted with the practices of rising capitalism. For example, the central principle

[1] *Op. cit.*, p. 248.

of the economic ethics of medievalism was equality of bargaining; a contract was fair when both parties made an equal gain. Usury was denounced by St. Thomas and his school, not merely as the extortion of interest for loans made by the wealthy to the needy, but as covering every sort of bargain when the stronger party used his strength to the disadvantage of the weaker. Such an ethics was accommodated to an age when custom and community prevailed and most business relations lay among neighbours, when ways of work and of living shifted very slowly and 'chaffering' was confined to a small part of the economic field. Every man was supposed to have his 'status' in the community and to give and get what belonged to that status. Now the Industrial Revolution, breaking the moulds of custom, and, by its new industrial methods and its attendant mobility and concentration of labour, destroying the old bonds of neighbourhood and community, made the older ethics seem impracticable.

The shifting of the spiritual centre of gravity from the Church to the individual responsible for the saving of his soul was accompanied by an insensible shifting of all spiritual obligations to the individual, including those which bore on business life. Industry, thrift, keen bargaining, and competition, became the essential conditions of a good life in the new order, and preaching must conform to practice. The Smilesian ethics with its central thesis, that God helps those who help themselves, soon became an accepted teaching, and among more thoughtful Christians developed into the doctrine of "the unseen hand" whose guidance harmonised the selfish aims and efforts of individuals with the good of the community. The significance of this movement lay in the gradual segregation of the economic activities and their claim to a sort of moral autonomy. It was not until the nineteenth century that the casting off of political, customary, and religious controls had gone so far as to enable

the successful entrepreneur to make his Declaration of Independence, couched most conveniently in the phrase, "Business is Business", i.e., is not answerable to politics, or religion, or morals. It may have political approaches and serviceable contacts, it should treat the workers well, and should practise legality and integrity as rules of the business life. But it is distinctively an autonomous system, making its own terms with politics, religion, ethics. The political controls and the ethics of medievalism were obviously unfitted for this new order. The processes of producing, exchanging, and distributing wealth could not operate effectively except by their own self-made rules and regulations. So there came into existence a distinctive section of human behaviour suitable for separate scientific study, the ordered application of mental and manual labour to the production and marketing of goods and services for monetary gain.

§ 4. But this is not a sufficient account of the way in which an economic science arose. It ignores the adjective 'Political' appended to Economy in common usage. It has often been remarked that Political Economy arose with the modern nation state. And it is true that the requirements of revenue by the modern state, and its controls in connection with revenue, were the beginnings of an orderly attempt to envisage the economic resources and activities of a nation as a whole. Taxation, coinage, and currency were the chief internal subjects of political solicitude. But it was foreign trade, considered chiefly in its bearing upon the King's Revenue, that first gave significance to the term 'Political Economy' in its wider meaning. Even in Adam Smith we find that the department of public finance bulks as big in importance as private production and personal wealth. "Political Economy," he says, "proposes two distinct objects: first, to provide a plentiful revenue or subsistence for the people, or more properly, to enable them to provide a revenue or subsistence for themselves; and secondly, to

supply a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign." [1]

But though revenue policy led to the broader surveys of economic resources and conduct, it kept Economics in strict bondage to Politics, and checked any disinterested approach to a science of wealth. Hobbes was a typical thinker of this order. Though his *Leviathan* [2] contains general ideas upon economics, derived from the organic conception of society, and an investigation of the determination of price and value that deserve the attention of the historian of economic theory, his study was kept in close subservience to his politics.

It is to Petty and Locke we must look for the first serious attempts to lay the foundations of a definite economic science. Petty's statement, "Labour is the father and active principle of wealth, as Lands are the mother," [3] may be considered the actual seedling from which economic science has grown. Add to this Locke's saying that "It is labour that puts the difference of value upon everything", [4] and we have a first approach to a disinterested economics.

But it was long before an economic science or art could shake off the trammels of politics. The wide prevalence of the mercantile theory was secured at the outset by the single purpose of making the state strong by means of 'treasure', and was mainly concerned with trade balances as means of acquiring this treasure. A broader, more independent outlook is, indeed, displayed in a British writer of this school, Sir James Stewart. The subtitle of his book (published 1767) is of special interest as attesting the scope of the new science. "An Inquiry into the Principles of Political Economy, being an essay in the science of Domestic Policy in Free Nations, in which are particularly considered Popula-

[1] *Wealth of Nations,* Book IV, Introduction.
[2] *Leviathan,* Part II, chap. 27.
[3] *Economic Writings,* Vol. I, p. 181.
[4] *Civil Government,* p. 184.

tion, Agriculture, Trade, Industry, Money, Coin, Interest, Circulation, Banks, Exchange, Public Credit, and Taxes."

But subservience to the state remains throughout the keynote to the mercantilist economics, and though its later treatment included most of the subject-matter of a disinterested science, this definitely political aim marked it as a department of the art of statecraft.

§ 5. In order that an independent science of Economics might arise, it was necessary for economic practice, business life, to throw off all close subordination to the state. So long as the state, either in the supposed interests of public order, or to furnish itself with revenue, maintained laws of settlement which impeded the economically advantageous movement of workers, gave monopolies of certain trades and occupations to Guilds or Companies, denied legal facilities to joint-stock enterprise, placed prohibitions or obstructions upon internal and foreign trade, it was impossible to disentangle economic from political considerations for the purposes of a separate systematic study.

Hence it was the great Protestant Liberal movement in religion and politics, the rise of a new powerful commercial class bringing into the new industrial arts and the widening ways of commerce the tough mentality of Puritanism, that brought about that liberation of economic processes from state control which made a separate economic science possible. *Laissez faire, laissez aller*, meant "hands off" to State and Church, with a free run for the business instincts and processes.

It is, of course, true that no complete autonomy for an economic system was attainable, nor, indeed, desired. The power of the state, with enforceable rules for the protection and transfer of property, for fulfilment of contract, for the issue of legal currency, and for many other matters touching business life, was almost universally upheld, as indeed it is to-day, by the extreme school of individualists. Moreover,

in Britain, as in other countries entering the modern era of machine-industry, the liberation from many obsolete political restraints was accompanied by a new development of public regulations in the shape of Factory and Workshops legislation, Companies Acts, Insurance and Employers' Liability Acts, many of them interfering with that absolute freedom of contract which is the most fundamental principle of *laissez faire* economy. Lastly, the business classes in every country, while desiderating complete freedom in running their businesses, have always shown willingness to avail themselves of assistance in the way of subsidies, tariff protection, commercial treaties, and other concessions and facilities, while the whole trend of the foreign policy of every state has been notoriously directed by the requirements of the commercial and investing classes. But this political and legal encompassment does not impugn the general truth of the statement that within the last few generations economic processes, the business life, have become an essentially autonomous system of human activity, with more and more complex relations, operated by rules worked out by business men for business purposes, and embodying a commercial ethics which differs sensibly from the private ethics of the family or other forms of the community. The price system, the market, is the central function of this economic life. All goods and services that come under its operation are wealth, have 'value', and are the products of economic activity.

§ 6. The late emergence of an economic science is, however, attributable in large part to the reluctance of even 'educated' men and women to give a clear acceptance to the idea that any branch of human conduct is subject to laws, other than those with a moral or political sanction. The notion of any mental or social science was difficult to reconcile with prevailing ideas of Providence upon the one hand, and with common experience of the 'chances and changes of this mortal life' upon the other.

Even now most 'educated' persons, who fully accept the reign of law in the physical sciences, give no full or genuine acceptance to law in the social sciences. It is not merely that ethics, politics, economics, sociology, are backward in the discovery and formulation of their laws: the laws are not 'there' to be discovered, in the sense in which they are 'there' in physics and chemistry.

Partly, no doubt, this attitude arises from the intractability of the subject matter of these studies, the difficulty of the demarcation of the several sciences, the narrow limits of experimentalism, the emotional biases that beset the student. But there is also a feeling of doubt, or of disbelief, in the actual operation of laws in the same sense in which they operate in the physical sciences, or, put otherwise, a belief in some inherent incapacity of social phenomena to conform closely to any regulations inductively derived from past experiences. There is, as we have already acknowledged, a reasonable ground for this scepticism, in that social experience is continually presenting 'novelties' not wholly explicable by any laws derived from earlier experience in the same field. These novelties are the growing points in human history, and of necessity they baffle law and prediction. But the interest attaching to them has unduly delayed the recognition of the fact that human nature is after all only a branch of nature, and is amenable to laws as regular in their normal operation over the human field of enquiry as is the case in other fields. Emergent creation does not negate law, it only limits it.

But undoubtedly the feeling for and belief in free will and chance have impaired the acceptance of social laws, and unnecessary harm has been done by reluctance to admit that for purposes of prevision and human action laws are of more limited applicability when their subject matter is less static in its nature and less amenable to experiment under scientific conditions. The refusal to recognise the difference be-

tween inorganic and organic, and between organic and psychic, between psychic and self-conscious, in forming the conception and scope of 'natural laws' has been a source of great confusion in the social sciences. Positivism has some responsibility for this confusion. "If sociological laws," wrote Comte, "are positively established as certainly as the laws of gravitation, no room is left for opinion; the proper function of every member of society admits of no question: therefore the claim to liberty is perverse and irrational." [1]

But the belief that industry was a department of nature, subject to laws as binding in their force and as immutable as the laws of physics, was, indeed, the underlying assumption of the first conceivers of an economic system, the Physiocrats. Their title was indicative of an organised attempt to extend the conception of a natural order into the field of human arrangements. Their 'natural order' had, indeed, a double significance. In general the Physiocrats were followers of Rousseau in the sense of believing in an ideal order, a primitive nature which was identified with Right. But their more distinctive contribution to thought lay in their insistence that the production and distribution of goods conformed to laws of nature as absolute and stable as those which regulate inanimate nature, though operative through the apparently 'free' acts of men.

It is important to realise that the first conception of an economic system was that of a natural harmony of individual interests and wills. "The Physiocrats believed that the individual knew his interests best, or, in other words, would act more in accordance with the law of nature than would government. Hence their well-known maxim, *laissez faire, laissez aller,* that is, let things alone, let them take their course. The only function of government according to this doctrine is to protect life, liberty and property." [2]

[1] Quoted Bury, *The Idea of Progress,* p. 301.
[2] Haney, *History of Economic Thought,* p. 140.

It is not necessary for our purpose to set out the substance of this economic system. It suffices to say that, like other systems, it takes its shape and complexion from the current economic interest of its time and country. Here in eighteenth century France the *fons et origo* of production and of wealth was the work upon the land, the sole source of a material surplus. This idea led Quesnay, the chief developer of the theory, into his three-fold classification:

(1) the productive class, mainly agriculturists.

(2) the proprietors, or landowners, productive in so far as they were active administrators of their estate.

(3) the non-productive or *sterile* class, which included merchants, artizans, and professional men.[1] The distribution, or circulation, of the annual net product of the extractive industries, the material source of gain, was the chief subject of the economic enquiry. Among some exponents of this 'science' a dominant interest was the sense of the misery of the great peasant population forming the preponderant part of the nation. These appeared as the sole producers, all other sections of the people as manipulators, carriers, or parasitic consumers. But to Quesnay, and some others, Physiocracy was a glorification of the landlord capitalist who supplied what later economists would have termed the fixed and circulating capital needed to work the farms, acquiring it from what source and by what method of extraction neither Quesnay nor any other Physiocrat thought fit to disclose.

§ 7. When this rationalist doctrine of an economic system operated by natural laws crossed the English Channel it suffered a sea-change. For, though agriculture was still the largest occupation, Britain's growing economic interests manifestly lay in her manufactures, her commerce, and ship-

[1] This did not signify that the third class was useless, only that they did not contribute to the *net product*, or material surplus, which is got by work out of nature.

ping, and these activities chiefly engaged the minds of practical economists. The natural harmony of economic activities, which Adam Smith displayed in his *Wealth of Nations* (1776), took therefore a different pattern from Quesnay's *Tableau Economique* (1758).

Smith's contribution towards an economic science was of a three-fold character. (1) With the Physiocrats he achieved an almost complete severance of Political Economy from its earlier association with Moral Philosophy, and put it on a positive footing of its own, a line of conduct remarkable in one whose chair at Glasgow was that of Moral Philosophy and whose political economy was first conceived as an integral part of that philosophy. (2) He assembled from many special studies an immense body of relevant knowledge, both of fact and theory, making thus a more complete compendium of the materials needed for an economic science than had as yet been made. (3) He endowed this loose economic body with an operative spirit in the harmonious interplay of individual self-interests which led the members of an economic group to apply their several abilities and opportunities so as best to contribute to the common wealth.

To the validity of this 'harmony' I return later. Here I cite it as one of the central theses which enabled the idea of a separate economic theory, or science, to present itself as intelligible.

To the modern economist the *Wealth of Nations* is a curiously unsatisfactory basis for a science. Loose-jointed and discursive, it sandwiches passages of deductive reasoning between long historical disquisitions, and exhibits no attempt to draw together any general body of doctrine upon such vital topics as value or the theory of distribution. Much of it is controversy bearing on the vices of the existing economic order and is inspired by a reforming spirit. In judging it, however, it is important to remember that it was written before the Industrial Revolution had exhibited its size and

strength, when the free flow of capital and labour was only beginning to transform industrial England, and when the immediately urgent task was to liberate the minds of the ruling classes from the surviving fetters of an obsolete medieval economy. The full significance of the modern capitalist system came later, and its coming visibly affected the uses to which the *Wealth of Nations* was put by the early nineteenth century economists.

The makers and masters of the new capitalism — the strong, successful cotton manufacturers, ironmasters, bankers, and financiers — needed, for their own intellectual guidance, for securing the political reforms called for by the new economy, and, lastly, for the education of a public opinion favourable to progressive business methods, a body of doctrine, simple, dogmatic, and carrying the authority of inevitable law. This was furnished by Ricardo, James Mill, McCulloch, and other members of the hard-headed group of rationalists and utilitarians who were devoting themselves to this, the most practical of the social sciences. For the most part devout followers of Bentham and imbued with his spirit of humanity, they were none the less impelled to work out their economic science on lines which severed economic conduct too sharply from the general conduct of life, and imputed to it a too closely specialised set of economic motives.

The implications of a natural harmony of self-interests in Smith's teaching were tightened up, many of his human qualifications were squeezed out, the central control was allotted to the capitalist entrepreneur, and the system was devoted exclusively to material production.

§ 8. Before taking up the question of the relation of this economic theory, in its later classical development, to the ethical, humanitarian criticism with which it was confronted, it is convenient to pause here in order to get an understanding of the scope and method of the new science. In reading

the works of the economists from Adam Smith to J. S. Mill, and even later, it is rare to find any clear, intelligible, or consistent definition of their subject-matter.

If 'wealth' be the subject-matter, as Adam Smith's title suggests, what is meant by wealth? Smith is exceedingly obscure. He tells [1] us that wealth is "power of purchasing; a certain command over all labour or over all the produce of labour which there is in the market". He waits until Chapter V to tell us this. But this identification of wealth with purchasing power will not do. We are later told that the wealth of a nation is its "annual produce", or, "the necessaries or conveniences of life which it annually consumes". But still less will this do. A progressive nation does not consume the whole of its "annual produce". Or does Smith exclude all capital goods from "annual produce"? Among earlier economists there was a reluctance to admit wealth as the subject matter. Ricardo has nothing to say about wealth. He starts with value and the conditions that determine it. If you ask value of what, his answer is "commodities", and James Mill opens with the production of commodities, and does not speak of wealth. Malthus defines wealth as "the material objects, necessary, useful, or agreeable to man which are voluntarily appropriated by individuals or nations." [2] For Whateley wealth is "things contemplated as exchangeable' [3] — a definition which excludes goods in the hands of consumers. Senior includes under wealth "all those things and those things only which are transferable, are limited in supply, and are directly productive of pleasure or provocative of pain",[4] excluding all capital goods! Francis Walker, opening his *Political Economy* with a search of a definition of wealth, finds so much confusion in the treatment by economists that he virtually abandons the attempt, falling

[1] Book I, p. 33.
[2] *Political Economy*, p. 33.
[3] *Idem*, p. 5. [4] *Idem*, p. 6.

back upon the "almost general agreement" of the man in the street.[1] He endorses J. S. Mill's statement that "Everyone has a notion sufficiently correct for common purposes of what is meant by wealth." Unfortunately "common purposes" hardly satisfy the requirements of scientific study, as Mill himself shortly recognises when he indicates as wealth "all useful or agreeable things which possess exchangeable value",[2] but a little later[3] narrows the scope of Political Economy to "material wealth". Jevons follows James Mill in preferring "commodities" to "wealth". But though he says (*Theory*, p. 1) that "The science of Political Economy rests upon a few notions of an apparently simple character; utility, *wealth*, value, commodity, labour, capital, are the elements of the subject" and proposes to devote "the following pages to an investigation of the conditions and relations of the above-named notions", we find no discussion of "wealth". Marshall in his *Principles* (p. 1) identifies wealth with "the material requisites of well-living", a far too comprehensive account, for many of these requisites cannot by the most liberal interpretation rank as economic "wealth". In his *Economics of Industry* there is worse confusion. For there under the wealth of a man we find two classes of goods.

"In the first class are those material goods to which he has (by law and custom) private right of property, and which are therefore transferable and exchangeable. In the second class are those of his immaterial goods which are external to him and serve directly as the means of enabling him to acquire material goods, such, for instance, as the good will of his business or professional practice."[4] He adds in a footnote, "It is perhaps hardly necessary to say that *services* and

[1] *Idem*, p. 6.
[2] *Idem*, p. 6.
[3] *Idem*, p. 30.
[4] *Economics of Industry*, p. 52.

other goods, which pass out of existence in the same instant that they come into it, do not contribute to the stock of wealth and may therefore be left out of our account." This will never do. A medical practice is wealth, but the particular bits of practice are not! Why are services of brief duration to be excluded? Why the statical condition of belonging to a "stock of wealth"? All wealth is momentary, if it be resolved, as it may, into the 'utility' of the units of which it is constituted.

The general tendency among economists right up to the present day has been to include only material goods in wealth. So Taussig: "Wealth has been described as consisting of those goods which are not free. The term refers primarily to things that are tangible and material." [1] Cannan writes, "It is quite convenient to have a separate department of science, called economics, to deal with the causes of the material welfare or wealth of human beings, considered both as a whole and as individuals, and also in groups." [2] The term "material welfare" introduces a fresh confusion. 'Material wealth' and 'physical welfare', if you like, but surely not "material welfare". Pigou in his important treatise, *Economics of Welfare* (1920), regards 'economic welfare' "that part of social welfare that can be brought directly or indirectly into relation with the measuring rod of money" as the subject-matter of economic science. For him there is no 'material welfare', for "welfare includes states of consciousness only and not material things." [3]

## II

Speaking generally, we may say that, from Ricardo to J. S. Mill's *Principles,* economic science hardened towards materialism in its view of wealth and income as its subject-matter, and that from J. S. Mill onward there has been a

[1] *Principles,* p. 15.
[2] *Wealth,* p. 18. [3] P. 10.

growing disposition towards a broader utilitarianism translating wealth into subjective welfare. There has also been a marked tendency to put income in the place once occupied by wealth in a working theory of economics. An advantageous effect of this change has been to include all purchasable services, professional and others, in the subject-matter of economic science, goods and services ranking on an equal footing in the price system. This is made clear by Pigou's identification of economic welfare as "that which can be brought directly into relation with the measuring rod of money."

Economics thus approaches the position of being a calculus of pleasures and pains, satisfactions and dissatisfactions, costs and utilities, in relation to all marketable goods and services. Jevons was the first among prominent English economists to conceive his science in this subjective way.[1] His analysis of utility as the basis of value, had it been accompanied by a corresponding analysis of disutility, would have transformed the science by resolving the concrete product and income of the community into terms of human satisfaction. Unfortunately neither Jevons nor his successors recognised the logical necessity of applying to the processes of producing the national income or dividend the same subjective analysis which they applied to the utilisation of that income in the processes of consumption. Though Pigou, in setting out his contention of economic welfare in relation to the material dividend, expressly recognises that "The quantity of economic welfare associated with any volume of the dividend depends, not only on the satisfaction yielded by consumption, but also on the dissatisfaction involved in production",[2] his treatment is virtually confined to the former factor, with rare and casual reference to the latter.

[1] For some criticism of the limitations of his application of the principles, see my *Free Thought in the Social Sciences,* Part II, chap. 2.
[2] *Economics of Welfare,* p. 43.

An even-handed calculus of the subjective costs and utilities, involved in the processes of production and consumption of the dividend in relation to the concrete nature of that dividend and its distribution, is a task to which modern economists might well have addressed themselves had they not been led to envisage their problem too exclusively in terms of the utilisation of the dividend by consumers.

§ 9. But even were this task fulfilled, of resolving the real income, or dividend, into the human costs and satisfactions attendant on the processes of producing and consuming it, we should still be confronted with grave difficulties in relating the 'economic welfare' thus indicated with 'human welfare' in the meaning ascribed to it.

The difficulties are these. First, what may be termed the 'ins and outs' problem. Secondly, the question of the application of a quantitative calculus to qualitative differences of cost and satisfaction. Thirdly, the direct confrontation of 'is' and 'ought', the current valuation with the ethical, the fitting of economic welfare into the organic scheme of human welfare.

The first difficulty need not detain us long. It has been generally recognised by economists that there is no fixed or certain line of demarcation between economic and non-economic activities and goods. A wife and a paid housekeeper may perform identical services within the home, but the former's services do not rank as economic and earn no income, while those of the housekeeper do. If a man marry his housekeeper, he thereby diminishes the general income or economic product! As civilisation advances, many sorts of 'free' goods become economic goods, acquiring value. Free land may be enclosed and utilised: fishing rights emerge, water becomes a salable commodity, air and sunshine add to rental value. In the realms of art and handicraft much of the same sort of work is done for love and for money, but only the latter counts as 'wealth'. When an amateur be-

comes a professional in painting, dancing, carpentry, or baseball, he increases the output of economic wealth, though he has not changed the quantity or quality of his activity. Other difficulties of economic computation arise when private properties or functions are taken over by the public and are administered without charge. Economic wealth is diminished when a millionaire donates his private grounds for a public park, or his pictures to a public gallery. But such blurring of margins affects the demarcation of every science, and in particular of those directed to some function of organic life.

The peculiar nature of organic relations, however, gives rise to a graver problem. So long as Political Economy was content to concern itself with quantity of vendible goods and with the activities of man in making and selling them, these goods and activities being registered in value by their price, the 'measuring rod of money' could disregard qualitative differences, except so far as they were found to affect price. This was the era of the 'economic man'. Modern economists sometimes deny that their predecessors ever taught 'the doctrine' of the economic man in the sense of depicting a state of society in which greed was in perpetual conflict with sloth, man being driven by pure self-interest to produce the material means of satisfying his desires. Now it is doubtless true that neither Ricardo, nor James Mill, nor any of their followers were so foolish as to believe that actual men were so simply motivated. But they did plan an economic science on the hypothesis of this simplified motivation. They said in effect, "Let us take the province of economic activities and people it with intelligent, self-interested beings, each seeking to get the most for himself by the least expenditure of effort, putting himself and his economic resources to the most profitable employment. This course will lead to the maximum production of wealth." Occasional qualification of the self-interested motive by reference to other motives and condi-

tions does not seriously affect this presentation of the earlier economic theory. So long, indeed, as economic wealth was assessed solely by its monetary value, it was reasonable enough that a segregation of economic motives should be posited, abstraction being made of all other conflicting motives in human conduct. Within limits this use of 'as if' is legitimate and even necessary. Conceive man as driven by a single set of desires, aiming at a goal called 'wealth' conceived in terms of mere quantity; you then have the essential character of the early hypothesis.

But when consideration of the pleasure and pain, satisfaction and dissatisfaction underlying these objective quantities presses into the science, the early hypothesis is shattered. When we reach Pigou's statement that economic "Welfare consists of states of consciousness only and not material things", we cannot any longer treat wealth in terms of mere quantity, or motives relating to it in separable measurable units. The relation between a conglomerate mass of economic goods, constituting a stock or flow of wealth, and satisfactory 'states of consciousness' can no longer be expressed in a simple calculus. For the quantity of satisfaction attached to any piece of economic wealth has to be translated into the separate satisfactions and pains of producing and consuming it, and those will vary with the persons who produce and consume it and the conditions under which they do so. Even if we keep for the present within the test of current desires and valuations, it becomes evident that the economic welfare represented by each $100 worth of 'the national dividend' will vary indefinitely according to the quality or character of the goods it represents and the nature and conditions of the persons who have produced or will consume these goods. [1]

[1] Mr. W. A. Robson in his valuable little book, *The Relation of Wealth to Welfare,* cites a number of passages from Dr. Marshall's *Principles of Economics,* indicating a belief that some measurable relations existed between income and happiness.

"The product of a business will, it appears, vary in the amount of economic welfare it contains, according as the total cost or disutility of producing and the utility of consuming it are high or low. The amounts on both sides of the equation will evidently vary with the distribution of these costs and utilities. The maximum of wealth, as welfare, attaching to a given stock of goods, will involve such a distribution of the productive energy among producers as will yield a minimum amount of painful or injurious effort, and such a distribution of the consumptive utilities which the goods contain as will yield a maximum of pleasurable or serviceable consumption. In this problem of envisaging a body of objective wealth in terms of subjective wealth, or economic welfare, it is impossible to maintain a separate treatment of the cost of production and the utility of consumption. For the amount of satisfaction which such a body of wealth represents must take both simultaneously into consideration. You cannot, even theoretically, consider the amount of disutility, or painful cost, which goes into producing a body of goods, separately from the consideration of the amount of utility, or satisfaction, it yields in its consumption. For in an individual, or a society, these two functions evidently interact. Conditions of production, e.g., in respect of hours of labour, nature of work, etc., must react upon conditions of consumption, i.e., capacity for utilising these or any other kinds of goods. Conversely, conditions of consumption, e.g., amount of leisure, skill, and experience in utilising different

"When we speak of the dependence of well-being on material wealth, we refer to the flow or stream of well-being as measured by the flow or stream of incoming wealth and the consequent power of using and consuming it" (*Principles of Economics,* Eighth Edition, p. 134). Again, "It has been assumed that the happiness of life, in so far as it depends on material conditions, may be said to begin when the income is sufficient to yield the barest necessaries of life: and after that has been attained, an increase by a given percentage of the income will increase that happiness by about the same amount, whatever the income may be" (p. 717). A strange 'law of constant returns'!

kinds of goods, will, by reaction upon personal efficiency, make a working day easier or more difficult." [1]

In other words, the purely quantitative calculus of the classical and neo-classical economists fails because it does not take into account the organic unity of man. To break him up into a producer and a consumer for separate treatment, to give entirely separate attention to each unit of each article of consumption in the total of utility got out of his income, and each time unit in his working day, commits a double offence against his organic unity. For, in the first place, it ignores the organic interactions between his economic and non-economic life in respect of welfare, though the interactions of these diverse activities must count heavily in any true estimate of the effect of economic life on human welfare as an organic whole. If a man's work necessarily affects his mentality, his social and intellectual interests, his home life, his politics, religion, and recreations, these vitally important elements of welfare, thus affected, cannot be ruled out of the purview of an economic science which treats economic welfare in terms of states of consciousness. The penetration of economic into non-economic life, however difficult to analyse and assess, cannot be ignored.

§ 10. This criticism does not imply that the quantitative analyses and statistical studies based upon the isolation of particular economic activities and motives are illicit or unfruitful. On the contrary, immense value attaches to the objective studies of price and other financial movements which have assumed an ever increasing prominence in modern economics. Our point is that no satisfactory valuation of economic welfare as a whole, still less of the influence of economics upon human welfare in its wider significance, can be got, even theoretically, out of the multiplication or perfection of such studies. The reason is that the organic character of man and society is such that no purely quantitative

[1] J. A. Hobson, *Free Thought in the Social Sciences*, p. 132.

analysis can do all that is needed for understanding and direction. The science of economics, like other sciences, posits for its goal a perfection of quantitative measurements. But the essential character of every organic subject-matter is that it presents qualitative differences which cannot ultimately be reduced to terms of a common denominator. This refractory feature of organic studies has always troubled psychology in its efforts towards scientific exactitude. The formulas of early utilitarianists were wrecked on the hypothesis of pleasure or happiness being of a single kind, so as to admit of "a greatest happiness" for a person or "a greatest number". J. S. Mill's recognition of the truth that pleasures and utilities are of different kinds and of incommensurable values destroyed the hedonist calculus that was the basis of the Benthamite utilitarianism. But unfortunately it survived almost intact in the economic science where it was sustained by an illusory interpretation of distinctively economic conduct.

The measuring rod of money in a price system appears to perform the task of enabling a buyer to compare the satisfactions he may receive from the consumption of goods or services of the most diverse kinds by reducing them to some common character of 'desiredness'. He will expend a fifty dollar bill partly on a dinner, partly on a concert ticket, partly on a subscription to a mission, in such proportions that the last ten cents expended on each object yields him exactly the same amount of satisfaction! His consciousness is an alembic which can resolve the differences of an appeal to the palate, musical taste, and a regard for heathen souls to some featureless fund of human satisfaction. The economist with his naïve psychology shows this process operating in the mind of Mrs. Jones, as she lays out the limited family income, or in the mind of Mr. Jones as he organises a new department in his works. In point of fact Mrs. Jones does not make a conscious comparison of the quantity of satisfaction

she gets from a given expenditure on butter with that got from a similar contribution to a mission. She contains as a part of her psycho-physical make-up a fairly constant standard of expenditure, based upon her total personality and her obligations to herself, her family, and society. This expenditure, though varying somewhat all the time, and involving new adjustments, is sufficiently organic in its structure to regulate the amounts expended on each object without imposing the impossible task of a separate comparison of diverse satisfactions. Even when some change in her pecuniary resources, or the needs of her family, involves some redistribution of the funds between different items of expenditure, that readjustment, though involving some increases or cuts of exact dimensions, is not governed, as economists suggest, by conscious calculations of marginal utility, but by some central organic policy from which these quantitative changes flow. And it is just the same when Mr. Jones plans his new works. He may seem to make a number of separate calculations in the outlay of his capital and the number of workers he takes on for each process, comparing with exactitude utilities of production of many diverse kinds. But in fact all these estimates are governed by the conception in his mind of an up-to-date, efficient plant, the general organisation of which requires that just so much shall be laid out in this way, just so much in that.

§ 11. But if the economic calculus cannot enable an individual producer or consumer to make a separate evaluation of each item in his various costs and satisfactions by referring them to a common standard of value, still less can this measuring rod be applied to estimate the psychic wealth of a community of producer-consumers. For the personality of A., so far as it is stable, does enable him at least to envisage his satisfactions in some order of importance and precedence, whereas there is no way in which the psychic income, which A. may get out of a given money income, can be com-

pared with that which B. may get. For even those to whom society is a sort of super-personality would hardly maintain that the organic unity was as close and real as that of the individual personality. As our earlier discussion of the meaning of 'social welfare' has indicated, we cannot carry the assumption of equality or similarity of nature, needs, and satisfactions further than the similarity of psycho-physical make-up in individuals living in what is called the same environment may seem to warrant. While this takes us a certain way towards estimating the volume of satisfaction which a given distribution of money income will supply, especially as applied to meet those primary physical requirements in which different persons are most alike, it cannot lend itself to any exactitude of estimate. Differences of inborn nature, physical and spiritual environment, training and occupation, will necessarily endow different persons with differences of economic valuation that must defy any close computation of the relations between a body of concrete wealth and the welfare it may connote, according to the terms on which it is produced and consumed.

When we also bear in mind that the arts both of production and consumption in a modern community are continually changing, and with them the human costs and utilities attaching to the real income, we shall realise how illusory is the exactitude claimed or suggested by statistics of income as indices of economic welfare.

Useful then as are the statistical studies, which play so large a part in modern economics, for practitioners in the various departments of economic activity, and for students of general movements of money and of material goods, they cannot properly be treated as the material for an inductive science of economics which claims to go beyond the counting house, so as to translate its figures into terms of economic welfare.

# CHAPTER II

## ECONOMIC AND ETHICAL VALUES

### I

§ 1. By a somewhat circuitous route we are brought to the centre of our enquiry, the confrontation of economic with ethical or human values. This is not the same problem as that which concerned us in the last chapter, viz., the relations between objective wealth and wealth as expressed in current desires and valuations. For though that consideration, raising, as it did, the question of the organic unity of personality, led us to recognise the many intricate interactions between economic and non-economic activities and satisfactions, it did not directly raise the root-issue between industry and ethics, the consideration of economic processes and ends in the light of ethical or human ideals.

As was indicated in our opening chapter, modern capitalism from its rise was subjected to a current of 'humanist' criticism, assailing its injustice, inhumanity, its materialism, and its degrading reactions upon æsthetic tastes and values. It is important to understand how it was that the early economists, mostly men of high and humane principles, were able to ignore this criticism, and to devote their energies to the construction of an economic science which remained impervious to these charges.

In part the explanation lay in the mentality of the large, new, dominant type of business man, who imposed his standard of values upon the society in which he moved. The rapid increase of productivity, due to machinery and power,

was so much the most impressive feature of the age as to enlist in its service alike the virtues and the defects of the middle-class character and outlook. We have noted how the puritan nonconformist stock and morals were adapted to supply the hard energy, industry, and competitive enterprise, which the new industry required. The moral individualism which marked their theology, the personal obligation on every man to save his own soul, gave a spiritual background to an economic outlook that threw upon every individual a corresponding obligation to save himself in this life by strenuous struggle with the powers of evil, in the shape of sloth, intemperance, dishonesty, and other vices of character. The acquisition of wealth was regarded as a legitimate, nay, a praiseworthy test of personal merit. The temptations it brought with it were to be overcome, not to be evaded. Wealth was not to be employed in luxury or dissipation: thrift, saving, and keen-eyed investment formed a real contribution to the moral ideal of this society. These duties were fulfilled, and they visibly matured in a rapid rise of an increased wealth, easily envisaged as national prosperity. Among the more thoughtful members of this class the competitive struggle for gain thus became a branch of natural piety. Decent, respectable, church or chapel-going men rightly devoted themselves to these week-day duties, duties no doubt primarily due to themselves and their families, but likewise to society and to God. The callous indifference they displayed to the poverty and misery of so many of their fellow creatures, which sometimes arouses suspicion and indignation in the modern mind, was mainly attributable to a general failure to recognise that 'society', as such, was in any way causally responsible for this poverty and misery. A low standard of living for the mass of the workers was accepted as a natural condition; and lapses into actual want attributed either to the fault or the misfortune of the individuals concerned. For misfortune there was the bestowal

of charity, itself part of the moral reward of successful industry: for the faults of the poor, condonation or help would be an encouragement to weakness or vice. Such was the typical attitude of the great striving middle-classes, based upon a firm though unformulated conviction that everybody was and ought to be responsible for his performance of his duty as an efficient producer and a careful consumer.

So far as this could be regarded as a 'philosophy of life', in which there was so little thinking, its central thesis was an identification of mere activity with duty and happiness. Matthew Arnold found in this genius for 'doing' the characteristic of the British Philistine, whose portrait is that of the successful nonconformist business man of the mid-century. The worship of energy, of doing for doing's sake, and irrespective of the quality of what is done, is distinctively an Anglo-Saxon trait. Though its main source is instinctive, it has always had an intellectual backing among thinkers in revolt against the idleness of thought, the admiration of the student for the 'red blood'. Especially in America, the land of boundless energy, this creed survives to-day. It finds its latest and most unqualified expression in the work of an economist. "From our point of view," writes Dr. Carver,[1] "living well means living an energetic life, that is, a life in which the energy of the body is not only made kinetic, but is so applied as to enlarge the possibilities of human life, or to enlarge the stream of human energy." Energy not merely measures happiness but is happiness. For "More solar energy would be transformed into human energy in one case than the other, or, as some would prefer to have it said, more human happiness would exist in a Workhamite than in a Resthamite world."[2]

While this extrovert temper in the masters of modern capitalism and their theorists gave a justification to the business

[1] *The Economy of Human Energy*, p. 14.
[2] *Idem*, p. 17.

life which hindered its confrontation with humanist or ethical standards, the rising science of Economics enjoyed the moral support of the doctrine to which we have already made allusion under the title of 'the invisible hand'. The selfishness and greed of the competitive struggle was morally redeemed and consecrated by the conception of a code of nature, establishing a natural harmony. The theory was of ancient origin and by no means especially designed for economic application. The best succinct analysis is that given by Mr. Cliffe Leslie.

"An examination of Adam Smith's philosophy enables us to trace to its foundation the theory upon which the school in question has built its whole superstructure. The original foundation is in fact no other than that theory of nature which, descending through Roman juristic philosophy from the speculations of Greece, taught that there is a simple code of nature which human institutions have disturbed, though its principles are distinctly visible through them, and a beneficial and harmonious order of things which appears wherever nature is left to itself. The political philosophy flowing from this ideal source presents to us sometimes an assumed state of nature or of society in its natural simplicity; sometimes an assumed natural tendency or order of events, and sometimes a law or principle of human nature; and these different aspects greatly thicken the confusion perpetually arising between the real and the ideal, between that which by the assumption ought to be and that which actually is. The philosophy of Adam Smith, though containing an inductive investigation of the real order of things, is pervaded throughout by this theory of nature, in a form given to it by theology, by political history, and by the cast of his own mind." [1]

If the obstructions which human institutions had placed upon the free operation of natural tendencies in the sphere

[1] *Essays in Political Economy and Moral Philosophy.*

of industry and commerce were removed, a beneficial and harmonious order would emerge. The liberative tasks, to which our early economists devoted themselves, were undoubtedly inspired by this belief in letting nature take her course. It was, however, with Smith and his followers no merely negative gospel. Freed from her shackles, nature would give positive guidance to individuals in the conduct of affairs. Each man would be "led as by an invisible hand to promote an end which was no part of his intention". "By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it." [1]

Nor is this natural harmony applicable only to the dealings of individuals. Through individual conduct it harmonises the apparent conflicts of competing businesses, trades, and trading peoples, leading men through divided labor so to coöperate as to bring to all their proper share in these gainful operations.

"There are 'a natural price', 'a natural wages', a 'natural order' which human nature will discover for itself, and men's 'natural liberty' will be simply the absence of any hindrance to this spontaneous action of human nature." [2]

It is a broad humanitarian creed embedded in the whole system of moral philosophy, of which the Wealth of Nations was a single section. Free Trade is but one implication of a wider doctrine, in effect cosmopolitan. This code of nature, pre-Christian and non-theological in origin, was easily incorporated as Providence or divine guidance by Christian theologians and philosophers. For our purpose here, the important point is that it furnished a sort of ethical and theological defence for the economic individualism of a freely competitive system. The 'is' of this system was reconciled with the 'ought', the actual with the ideal.

[1] *Wealth of Nations*, Book III, chap. IV.
[2] Bonar, p. 177.

When Political Economy had hardened into a specialised study in the hands of Ricardo and his disciples, the natural harmony, shedding its semi-mystical or divine nature, was incorporated in the rationalism of the utilitarian conception of society. Society was a mechanism of nice, accurate adjustments, in which each cog or screw, or other bit, had its appointed, necessary, useful part to fill. Let each person inform his mind, behave reasonably, and look after his own interests: a society of such persons, each successfully minding his own business, will be a successful society.

This is individualism, a complete moral, economic, political doctrine. It seemed especially applicable to industry. The 'invisible hand' indeed was hardly needed, when all that was required was that the ordinarily intelligent man should put his labour, his hand, or his capital to its most gainful use, giving as little and taking as much as possible. Human nature would stand for this without any imposed guidance. In this way economic resources as an aggregate would be utilised as productively as possible, the improvement of all the arts of production would be stimulated to the utmost, and the largest body of wealth would be distributed in due proportions among all who had unintentionally co-operated in its making.

From the earliest launching of this doctrine there were qualms and questionings about the equity of distribution, but among utilitarian economists they were quenched by the reflection that distribution was regulated by natural laws. Fair minded exponents of this natural harmony were ready to admit that it did not work smoothly in economic society as it actually existed. Are all individuals in a position to know where their economic interests lie, and when they do know, are they always *free* to follow them? Does the free play of individual self-interest, as far as it is operative, necessarily make for the maximum wealth of the community? The early classical economists were so well aware that

the society in which they lived did not conform closely to the conditions of a natural harmony, that, as political and social reformers, their main efforts were directed to the removal of the artificial obstructions which impeded the system of natural liberty. The needed reforms included a general spread of education, which should include some understanding of economic opportunities and the discovery and improvement of personal aptitudes: the removal of legal and other barriers to the free mobility of labour: liberty to enter any trade or profession: free access to and utilisation of land and other natural resources: provision for the stimulation, security, and utilisation of savings by the development of savings banks, joint-stock companies, and other means of obtaining a free flow of capital and its intelligent direction. The philosophers of *laissez faire* were convinced believers in the equitable productivity of this enlightened selfishness.

It is, indeed, quite evident that, under certain conditions and within certain limits, this economy will work. Put a shipful of emigrants, with various skills and tools and ways of work, on to a new land, they will tend to settle down in accordance with this theory, each finding that he can get most for himself by doing the work that is most useful for the community. Their children will find 'openings' along the same line of maximum utility, given equal intelligence and opportunities. Certain inequalities and other defects will doubtless disclose themselves. Some soils or situations will be better than others, and, if they are held as exclusive property, rent may emerge and a non-working owning class come into existence. The idleness or misfortune of some, the industry or luck of others, may produce borrowers and lenders, and the latter may become a creditor class, also living without work. Excessive growth of numbers may stimulate a wasteful competition in the easier or more accessible occupations. Certain rare skills of mind or hand will enable their owners to get high rewards for their services.

When a primitive community develops into a more highly organised community, with capital playing a large part, and labour massed under skilled entrepreneurs, and land owned by comparatively few, the defects of the system from the standpoint of natural harmony loom larger. But for the classical economist the presumption still held good that, even with the limitations and drawbacks thus evolved, the tendency was for every man to put his economic resources to the best social use. In more recent times the development of a marginalist doctrine, representing the movements of minutely divisible units of capital and labor into businesses and trades of maximum efficiency and productivity, has given an exacter meaning to the *laissez faire* economy. If this infinite divisibility and free mobility of all forms of capital and labour actually existed, they would guarantee a natural harmony which would impel everyone to do his best and get 'what he was worth'. Unfortunately for this theory, concrete labour and capital are neither infinitely divisible nor freely mobile, while the structure and operations of modern industries are becoming less competitive. [1]

But it is not difficult to understand how the doctrine of a natural harmony, inspiring a policy of complete *laissez faire,* a free play of economic forces without political or other let or hindrance, satisfied the rationalistic humanitarian of the nineteenth century and stemmed the tide of ethical criticism which revolutionary socialists, or literary and artistic idealists, brought against the working of the economic system. For the miraculous advances in manufacture and transport, due to the free application of science to the arts of industry, seemed to introduce an era of national prosperity, so great and so continuous as to secure a life of reasonable comfort for all the inhabitants of those countries able to avail themselves of the new economies, and by ever expand-

[1] For a fuller exposure of the defects of marginalism, see the author's *Free Thought in the Social Sciences,* Part II.

ing commerce to spread the blessings of the new era in increasing measure throughout the habitable globe.[1] For though certain large perquisites of progress might be seized and held for a time by successful manufacturers and merchants, competition must compel them fairly quickly to hand down in lower prices to the general consuming public all but a fraction of the increased productivity of industry. Greedy landowners might, indeed, hold up both industrialists and the ordinary public by heightened rentals. This flaw in the natural harmony was recognised and reprobated by most of the economists. But the costs of factory sites and the compensation to landowners for sales to railroads and for mining rights could easily be met out of the immense gains of the new industrial order, while the injurious exactions from the incomes of the poorer classes for housing accommodation lay outside the purview of most economists, little concerned with what became of income when it passed to the consumer. The elaborate organisation of plant and labour in the factory system, the evolution of the railway and steamship systems, and of the mechanism of national and world markets and finance, conveyed to the mind of the economist so impressive an image of orderly exactitude as almost to eliminate the irregularities and defects in the operation of this vast economy. Reason and even justice seemed predominant, for were there not laws of distribution plainly discernible, assigning to each the income which measured the worth of his individual contribution to the vast aggregate of wealth?

§ 2. Although the earlier confidence in the economic system as a mechanical instrument for the production and distribution of wealth by laws as natural as those operative in other spheres of nature was definitely shaken by the damaging admissions of J. S. Mill, who called into question, not only the humanity and equity of the operation of this sys-

[1] See Tennyson's *Lockesley Hall.*

tem, but the immutability of its laws, the mechanical concept still remained as the basic principle in the presentation of economic science. Business life still remained an elaboration of fine and ever finer concrete adjustments, extending from the individual factory or workshop to the economic world conceived as a working whole. Even when a subjective political economy, presenting economic activities in terms of human efforts, desires, and wills, began to appear, the calculus employed in its exposition was essentially the same as that employed in purely physical processes of transformation. For (1), the unity of the human organism in its individual and collective forms, involving organic interactions between economic and other personal and social functions, was still ignored, or ruled out as an irrelevancy. (2) All desires, interests, and values were still treated as modes of a single undifferentiated stuff, expressible in units of that stuff, pleasure, pain, utility, satisfaction, happiness, or whatever name was assigned to it, and amenable as such to the measuring rod of money. That is to say, market value, price, remained the final criterion, even for an economics which professed to handle all the various efforts and costs, satisfactions and utilities, of human beings. (3) No serious recognition was accorded to the new teachings of the conscious control of the rational will of man over human institutions and therefore over the 'laws' which regulate the working of these institutions, the most important outcome of ordered psychology in the field of the social sciences.

The net effect of this survival of the dominion of the mechanical concept was to cripple the progress of the new biological conceptions of evolution as the main source of interpretation in economics. For though biological conceptions of growth had made some way in presenting an evolution of industry, and everybody was aware that transformations of the arts of industry and business organisation were taking place, the persistent tendency to regard these very processes

of change in terms of economic laws inherent in the economic subject-matter rather than as products of the purposes of man, preserved essentially intact the old mechanical dominion.

## II

§ 3. So long as wealth, alike in its concrete material nature and in its utility, was held to be reducible to some common denominator, and measurable in some single standard, while the processes of producing and distributing it, and the very alterations in these processes themselves, were governed by laws derived from the immutable nature of things and men, the problem which concerns us here could not properly arise. I use the term 'properly', because it is quite evident that the real failure of the earlier humanitarian or ethical criticism of the economic system by nineteenth century thinkers was chiefly due to the conviction of business men and their economists, that it was as irrelevant to blame the economic system for its admitted barbarities and wastes as it was to blame nature for its greater apparent wastefulness in all her other inorganic and organic processes. It was mere foolishness to suggest that any other economy than that which operated *ought* to have operated.

Not even when the conception of 'a psychic income' has been substituted for the material income of the early economists does this irrelevancy necessarily disappear. For we might translate all economic income into terms of human satisfaction, and yet cling to the belief that all enlargements or improvements in producing or distributing it were governed by laws that were not mutable by man's reasonable will. And such a belief is sustained by all the intellectual influence attaching to the very concept 'science'. Originating in departments of knowledge, where all discoverable laws are of an objective and immutable order, and where nature's 'art', if any, was only discoverable in objec-

tive facts or behaviour, the term science, recently brought into the world of human behaviour, carried with it, quite naturally, those associations gathered in sub-human spheres. Brought into a sphere where the alien concept 'ought' not only thrust its presence, but claimed jurisdiction, the 'natural' tendency of the science was to deny the existence of this 'ought'. If it could not maintain the full rigour of this denial, treating economic activities as mere 'behaviour', it could at least relegate the ethical demand, the 'ought', to a safe exterior position in which it operated, not to interfere with the scientific laws, but to apply emollients to their more painful implications.

And this in effect has been the attitude taken by the main body of authoritative economists up to the present day. Some have, indeed, given a grudging admission to the power of human will to effect changes in the economic structure and activities, in the cause of human betterment, but they have regarded these changes as lying within the province of an economic art, dissociated from the rigours of a science which is irrevocably bound up to actual facts.

§ 4. The distinctively moral doctrine of a natural harmony was thus gradually altered into a scientific conception of the play of economic forces, in which spiritual direction was displaced by laws almost as immutable and as disinterested as those discoverable by physics, chemistry, or geology. I say 'almost', because even among the most rigorous school of determinism some play was given to the changing will of man as a determinant. But the general trend of the scientific economists was towards a science in which the materials and forces of physical nature on the one hand, and the psychophysical human nature which handled these physical resources on the other, were governed by unalterable laws. This way of thinking belonged to the wider intellectual ambition of bringing man in all his output and activities into a clearly ordered conception of the universe. In an age dis-

tinguished by pace and variety of material progress it exercised a steadying influence upon the mind of man, checking the restive movements of humanitarians who chafed at the inadequacy of the share that came to the workers from the enlarging powers of production, and denouncing the futility and waste of all attempts to interfere by legal or trade union action with the laws regulating the distribution of wealth.

Though the early rigour of this scientific attitude was mitigated later on, and the iron law of 'wages', the wage-fund theory, and other bulwarks of hard-shell determinist doctrine disappeared, a sharp conflict continues to be waged between the descendants of the classical school of economists and rational reformers as to the relative part of the immutable and the mutable in economic processes. The former lay stress upon the fixed character of 'natural resources', the fertility, position, climate, etc., of usable lands and waters, on the one hand, the permanent character of the main human needs, capacities, and motives and social institutions which enter into or influence economic processes, upon the other.[1] The latter, relying upon the intellectual and moral educability of 'human nature' in its bearing upon the arts of production and consumption and in the growth, selection, and distribution of population, question the fixity of economic law in all its applications. The quantity of land for any economic purpose is not fixed, nor is its fertility or its relative position. Even climate is not unalterable. The growing control over nature by the application of the physical sciences can be accompanied by a not less significant control over human nature by psychology and hygiene. Political, legal, and other social institutions may become far more rapidly modifiable: the deepest rooted motives may be altered in the actual operation by education, selection, re-

[1] For an excellent summary of these factors under the heads, 'Natural', 'Social', 'Human', see Sir J. Stamp's *The Christian Ethic as an Economic Factor*, p. 27.

pression, combination. While then we may still hold that certain important factors in the operation of the economic system, physical and human, are for any immediate purposes to be regarded as 'fixed' and operable by relatively fixed laws, an ever increasing part is played by the intellectual and moral powers of man subject to his changeful purposes, and acting upon 'nature' so as to alter the economic significance of many of those characters that are most fixed.

Thus the barriers set against the social control of economic processes by human intelligence and will are continually being weakened. Economic laws do not disappear, but their application to economic situations is continually changing, as the physical factors that seemed to give them immutability are found modifiable in their economic bearing by psychical factors which carry a creative spirit. This new attitude towards the interpretation of the economic system has a special bearing upon the problem of the claim of ethics to exercise a suzerainty over economic processes. For if, as we hold, the real problems of modern economics are mainly the control of economic resources by the intelligent will of man, economics, as art, becomes a branch of human conduct. *This creed demands a change in the conception of an economic science, not in the sense of a direct subordination to ethics, but as involving a recognition that every operative 'ought' is an 'is', and must be taken account of in any analysis of economic facts and forces.*

In other words, human conduct differs from every other known sort of organic conduct in that the operative units entertain, and are immediately influenced in their activities by advance images of 'the desirable', termed ideals. The drive or urge towards these ideals is an 'ought'. Seeing that these ideals and this feeling of 'ought' (the moral or human craving) are more and more potent factors in the economic conduct of to-day, the disposition to deny the term 'normative' to economic science, or to draw tight limits to its ap-

plication, is an obstructive procedure which hampers the progress of a social science. It is quite unnecessary, in pressing for due recognition of this 'ought', to open up the metaphysics of free will, or to consider what precise validity attaches to such a term as 'self-determination'. For our purpose this 'ought' figures in economic science as a factor of growing importance in those operations of desire and will that impel economic activities, and the exploration of the potentialities of that 'ought', in guiding economic conduct and moulding economic institutions, gives new significance to an economic art, as to every other social art.

It will, doubtless, be contended in some quarters that where a sense of moral obligation, an ought, or any other recognition of the desirable, actually enters into the economic sphere as a motive in determining economic action, the modern economist is prepared to give due recognition to it, and actually does so, when its influence is made manifest and measurable. In other words, when the objectively desirable transforms itself into 'the desired', into terms of current conscious satisfaction, it is brought within the measuring rod of money, along with the other satisfactions that enter into price determination. In that sense, and to that extent, modern economic science takes account of ethics. Economic welfare thus includes elements of ethical or human welfare.

This seems to bring us to the dividing line disclosed in an interesting controversy between Professor Pigou and Mr. R. C. Hawtrey. The exact position of this line is best seen by reverting to our earlier analysis, and marking the earliest positions taken as to the relations of Political Economy to Ethics. In this distinctively materialistic science no attempt is made to go behind the concept of material measurable wealth, as valued by money, the laws of the productive exchange and distribution of that wealth, consumption ranking as a process subordinate to production. Here no formal contact with ethics is established. This is, in effect, an ex-

tension of physics and biology to a special branch of human behaviour. The next position (next in logic, though not altogether in time) is that when the application of utilitarian hedonism sought to resolve wealth into 'utilities', or conscious satisfactions, bringing into play the reactions upon a given body of wealth effected by the terms of its distribution and consumption, and to some slight extent its production. Dr. Pigou's is a position somewhat in advance of this, in which 'wealth' is formally resolved into the welfare involved in its utilisation or consumption, that welfare being measurable in terms of some general desiredness and incorporating such measure of the objectively desirable, the ethically 'good', as is found in the actually desired. Then comes along Mr. Hawtrey, pointing out what is incontestable, that what men actually desire differs sometimes widely from what they would desire if they knew and willed what was best for them, the ideally desirable. Mr. Hawtrey expounds at length [1] a thesis more briefly indicated in a brochure by Mr. J. M. Keynes, [2] and it is not without significance that the most advanced movement towards a recognition of the subordination of economics to ethics should, in England, come from leading experts in that branch of economic study where the subject matter is most abstract, viz., finance. Taking Pigou's definition of economic welfare as "that part of social welfare that can be brought directly or indirectly into relation with the measuring rod of money", Mr. Hawtrey points out that, if consumers' actual preferences are, as is the assumption, taken as determining the economic welfare attached to purchasable goods, and that welfare is a part of Dr. Pigou's "social welfare", the latter term is also confined to the criterion of the actually desired, as distinct from the desirable. Thus, though Dr. Pigou avowedly envisages his welfare in terms of 'satisfaction' rather than of the vaguer 'utility', that satis-

[1] *The Economic Problem,* chap. XVI.
[2] "The End of Laissez Faire".

faction "remains an abstraction from the consumer's preferences". In other words, the human welfare, of which it is a part, either remains on the plane of human desiredness, or else it assumes in the individual "a disposition to prefer the greater good" which virtually identifies 'desired' and 'desirable'. Now welfare, as Mr. Hawtrey contends, should if possible be identified with real good, and the preferences displayed in economic conduct are no sufficient indices of this welfare. We would not go so far with him as to maintain that "the consumer's preferences have a very slight relation to the real good of the things he chooses", but we may accept his judgment, "We are compelled to give up what has been from the very start the leading idea of economists, the idea of a *measurable aggregate* of economic welfare which forms a constituent of welfare as a whole." [1] Current economics, so far as it is psychological, deals with current satisfactions. Now "The aggregate of satisfactions is not an aggregate of welfare at all. It represents good satisfactions which are welfare and bad satisfactions which are the reverse." Therefore, and this is his conclusion, "Economics cannot be dissociated from ethics."

The controversy is thus locked. Supporters of Pigou contend that, if we introduce distinctively ethical criteria, we land ourselves in a region not merely outside measurable facts, but outside agreed facts. This is clearly put by Mr. Lionel Robbins. [2] "It is not because we believe that our science is exact that we wish to exclude ethics from our analysis, but because we wish to confine our investigations to a subject about which positive statement of any kind is conceivable." "So long as we confine ourselves to the investigation of what is, or what can be, the deficiencies of economics are the result of the deficiencies of economists. But as soon as we include investigations of what should be,

[1] *Op. cit.*, p. 184.
[2] *Economica*, June, 1927.

we are embarked on speculations whose very nature no philosopher since the beginning of time has succeeded in making clear."

In a word, the measuring rod of money may sometimes be badly or erroneously applied, but it does yield results which a science of economics may recognise as facts, something that is. We had, therefore, best confine ourselves to the sorts of satisfactions that are measurable, and have no truck with satisfactions that not merely are immeasurable but are of varying appeal to different persons or to the same person at different times. For Mr. Robbins apparently denies that for ethics there are either facts or any substantial agreements upon standards of values. Others may not go so far as this. But economists will generally be in agreement with him in preferring to keep their science within the sphere of actual behaviour and measurable motives and satisfactions. In effect this is a refusal to recognise any real *modus vivendi* or contact between economic values and ethical values. If it does not declare for the complete autonomy of economics, the relations it permits between economics and ethics are hardly more than those of a bowing acquaintance. There may be some loose assumption that economic prosperity is, upon the whole, conducive to 'a good life', in the sense of Aristotle's admission that one must first have a livelihood, then practise virtue, but no correlation of economic and human values can be admitted.

§ 5. This brief survey of a deep-rooted and entangled controversy ought to make it evident that for our purpose of relating economic to human values, the demand for complete autonomy for economics cannot be entertained. We cannot admit as the objective of economic activities either the yield of material goods which these activities produce, or the 'psychic income' which they yield as assessed in terms of current deservedness or satisfaction, without reference to their intrinsic desirability. Mere wealth in a community, as esti-

mated by increased quantity of goods, might involve reduced utility or satisfaction, reduced psychic income, by reason either of its worse apportionment, or of the more arduous labor of producing it. A larger 'psychic income', expressed in terms of current desires, is subject to the wastes and damages of currency debasement, that is to say the errors and depravities of taste and appetite. A material or a psychic income may contain 'illth' as an alloy to its 'wealth'. Moreover, when you once throw over the material test for that of conscious satisfactions you are confronted with two sets of difficulties: first, that of applying some common standard of valuation to the satisfactions of A. and B.; second, that of keeping economic satisfactions separate from other satisfactions, not distinctively of economic origin and nature, which they affect or are affected by.

Two courses remain for our consideration. Shall we, preserving our separation of economic from other human activities as the basis of a separate study, seek to humanise that study by giving due place to ethical factors alike in the science and the art of industry, and subjecting the distinctively economic actions at every step to ethical criteria? Or shall we frankly acknowledge that the separation of the economic from other departments of personal and social activity, as the subject matter of a science or an art, is a mistake which can only be rectified by subsuming economics under ethics or the general study of humanity, or what ever title be given to the science and art of human conduct.

This issue, though nearly related to, is not identical with that raised originally by Comte, and later by other sociologists, whether there can rightly be said to exist a science of Political Economy within the all-embracing science of sociology. For most of those who plead the omnicompetence of sociology continue to regard this as a distinctively positive science, in a sense which excludes the supremacy that in our discussion is accorded to ethics as the science and art of hu-

man welfare. A purely evolutionary view of social development and institutions viewed as mere process, with purpose either unrecognised or kept in the background, could not do otherwise. For it is only when, as in Professor Hobhouse's great work, [1] purpose with an increasingly moral significance is recognised as the *vis motrix* in social evolution, that we are able properly to envisage a unified social science and art, which can take for their subject matter the whole scope of human conduct regarded from the standpoint of welfare or value.

But some points of interest for us are discernible in the long and sometimes acrimonious controversy over the legitimacy of a positive separate science of Political Economy. Here, however, we must refuse to be drawn aside into another controversy which, especially in Germany, got entangled with the first, viz., the relative merits of the theoretical and the historical methods. For this latter controversy has no special application to the question of the proper relations of Political Economy to Sociology, and although the historical method doubtless stresses the interrelations between the various special studies (sciences or not) which make up sociology, it cannot settle the issue of the utility, and therefore the validity, of treating economics, or politics, or law, or any other department of conduct, as if it were separate from the whole. For the legitimacy of the abstractions needed to support a separate theory of Political Economy, the 'as ifs' of an 'economic man', a free competition, an infinite divisibility of the factors of production, etc., ultimately turns, not on the question how far these abstractions correspond to concrete economic experience, but how serviceable they can make themselves in putting intelligible order into this experience. It is just the question of serviceability that has always divided the unified sociologist from the specialised sociologist, as economist, political scientist, or other.

[1] *Development and Purpose.*

The Comtist position was avowedly based upon the view that the phenomena of society were so complicated in their relations, and the various aspects and activities so intertwined, that any attempt to present a separate economic or industrial analysis of society was foredoomed to failure. In a later generation this view found expression in Dr. Ingram's article on Political Economy, contributed to the 9th edition of the *Encyclopedia Britannica,* where, after an exposition of the science as developed in England, he concludes that "The one thing needful is not merely a reform of political economy, but its fusion in a complete science of society."

This is a different position from that taken by the school of Roscher and Knies which came to the fore in Germany in the mid-nineteenth century.

"The school explicitly calls itself ethical; it regards political economy as having a high ethical task, and as concerned with the most important problems of human life. The science is not merely to classify the motives that prompt to economic activity; it must also weigh and compare their moral merit. It must determine a standard of the right production and distribution of wealth, such that the demands of justice and morality may be satisfied. It must set forth an ideal of economic development, having in mind the intellectual and moral, as well as the merely material, life; and it must discuss the ways and means — such as the strengthening of right motives, and the spread of sound customs and habits in industrial life, as well as the direct intervention of the State — by which that ideal is to be sought after." [1]

This view conforms to the former of our two alternatives. While accepting ethical standards of reference for the evaluation of economic activities and for the direction of economic conduct, it does not contemplate the merging of economic science in a general science of ethics or in a sociology, but retains the specialist spirit and method in the study of the

[1] J. N. Keynes, *Scope and Method of Political Economy,* p. 20.

phenomena of economic life. It may be difficult, perhaps impossible, to maintain this attitude in face of the constant obligation to value economic motives and actions by a standard that is external and of superior validity. In other words, it may be difficult to pump ethics into economic life, without absorbing the latter into the former regarded as the arbiter of human conduct and the assessor of human welfare. But such was the attempt, and the degree of its utility or practicability remains for our consideration when we have taken due account of the alternative.

The virtues rightly claimed for this school are a superior realism, the beings whose activities it studies being far richer in humanity than even the more liberal renderings of 'the economic man' by classical theorists, a closer association of economics with the other social sciences and arts, and a keener recognition of the mutability of economic doctrines in accordance with varying conditions of social life.

This discussion of diverse and competing methods of treatment is apt to overestimate the discordant elements, and to present our problem as insoluble. Having dismissed the materialistic and the 'psychic income' conceptions of the economic objective as fundamentally defective for the purpose of any human evaluation, we seemed to be landed with the alternatives of attempting to preserve a distinctively economic field of study into which ethical concepts and valuations continually trespass, or else of dissolving economics altogether into an all-embracing ethics or humanism. But there are ways of avoiding these over-logical predicaments, by taking what we would call a more practical and commonsense view of the situation. The modern attitude of the statesman, the philanthropist, the enlightened business man, the social reformer, is everywhere moving away from material monetary estimates in the handling of those social problems which still primarily present themselves as 'economic'. All of them come half-consciously to disregard the

narrow specialisms into which social scientists endeavoured to carve up their science. Insensibly, the dominant conception of the conditions of organic unity is coming to prevail. Every important social problem is coming to be recognised as containing economic, political, moral, hygienic, and other factors related in the life of a human organism. This is not, as might seem, merely the triumph of biology. For though the terms 'organism' and 'organic' are commonly for convenience adopted for discussing the relation of the parts to one another and to the whole, the issue far transcends biology, passing below into the new physical conceptions of the structure and behaviour of the units of matter, upward into the issues which in politics and ethics gather round personality, community, and federalism. For philosophers nothing less than a new conception of the structure and operation of the universe is involved, or perhaps the scrapping of the concept structure in any static sense and the envisagement of the whole 'affair' in terms of discontinuous activities.[1] Not a few of them admit that this new view not only tends to break down the divisions between the sciences, but to present an attitude with which science as such is not qualified to cope. For modern science has been disposed progressively to eliminate 'force', urge, activity, causal efficiency, and purpose from its realm. It does not require these concepts and cannot work with them. But precisely on this account it disables itself from any other than a mechanical or analytic treatment of an organism. It can neither handle an organism as a structure, nor as the system of activities in which an organism expresses itself. "The concept of the organism, then, is best regarded as a philosophical concept proper to the domain of the philosophy of science, but in no sense a scientific hypothesis."[2]

[1] Prof. Whitehead's *Science and the Modern World* contains an exposition of this doctrine.

[2] Joseph Needham, *Organism in Biology, Journal of Philosophic Studies,* Jan., 1928.

Now this new tendency to assimilate all 'wholes' or unitary systems, from the atom to the universe, mental as well as physical wholes, to the structure and behaviour of an 'organism', and to see them all as systems of interacting parts with internal interrelations, on the one hand, and external interrelations with other similarly constructed wholes, upon the other, is exceedingly germane to our thesis. For it establishes the inseparability of the economic activities in men, or groups of men, from the other activities which these organic beings display in all operations concerned with the production and utilisation of economic or marketable goods. Not merely do economic and non-economic activities incessantly interact in every process, but the 'good', or 'satisfaction', got out of any set of activities can only be interpreted in terms of the organism as a whole.

Yet such an extension of organism is liable to lead astray, if it conveys the notion of too rigorous a system, too tight a whole. It must be able to assimilate the idea of parts which belong to one organism to-day, another tomorrow, organisms where the central control is dominant and yet where a large measure of freedom is accorded to the parts, of systems within systems, and systems formally complete which impinge upon, affect, and are affected by other systems, either similar or dissimilar in character and function.

§ 6. Perhaps we get closer to our specific problem if we approach it, not by the term, "organism", but by the more distinctively political term "federalism". For the history of federalism confronts us with virtually the same alternatives with which we are here engaged in our attempt to decide whether, or how far, economics can do its work properly as a separate special study, science, or art, or must be regarded as an aspect or factor of the general study of humanity. Federalism assumes at once a certain unity and a certain diversity of interests and powers, and presents a constitution in which these two opposed principles of autonomy and central

government are reconciled. That reconcilement takes various shapes, according to the measure of paramountcy claimed for the federal government, and depends largely upon whether the arrangement is reached by devolution of specific powers from the central power, or, reversely, by the cession of specific powers by the several states to the federal government. "How far is social science, or social philosophy, a federal science or a federation of sciences?" is perhaps the form our question should take. Answers will vary largely in proportion as the sciences and arts concerned are regarded as normative as well as factual. Where, as with the early economists, the tendency was to isolate economic from other processes, and to formulate the laws by which such economic processes operated, the unity of the social sciences was a loose federation of substantially autonomous bodies, with social philosophy as a sort of brooding over-thought. But when normative or ethical principles are brought into direct contact with economic processes, not only as participant motives, but as criteria, the older autonomy is evidently weakened, and we approach a system which is nearer to a federal state than to a federation of states.

If under such conditions it be asked: does Economics survive as a 'separate science'? the answer will depend upon the meaning given to the two words respectively. Under the subordination of economics to ethics here envisaged, there will remain plenty of specifically economic work to be done, both descriptive and interpretative, in those fields of industry, commerce, and finance, which have always occupied the chief attention of economists. The economic system, as an objective structure for the production and distribution of marketable goods and services, may thus be studied as a going concern, and made the subject of statistical measurements. But as enquiries proceed from the standpoint of social psychology into the organic interplay of activities and motives in the life of human communities, the pragmatic

value of a separate science whose abstractions violate the fundamental principles of organic unity in human beings will continue to be more heavily discounted. And in pragmatic value we here include intellectual value. For obviously to isolate these organic interrelations as a single set of human activities, in order to make them the subject matter of a separate science, when more and more both the ordinary experience of life and the sense of conduct in man testify to the ever closer contacts between the business or working life and other activities and interests, moral, political, educational, hygienic, and 'social' in the looser sense of that term, must present itself as less and less defensible. This growing sense of unity in life and conduct is, therefore, bound to exercise a dissolvent influence upon economics as a separate science and art. It will become a group of studies whose direction will more and more be exercised by and in the interest of social philosophy, its intellectual and practical utility subordinated to the wider study embracing the whole of human conduct, and imposing its standard of valuation upon each specific activity.

# PART THREE

# THE ETHICS OF ECONOMIC LIFE

# CHAPTER I

## ETHICS OF PROPERTY

§ 1. So far we have been engaged in the task of endeavouring, first, to secure as definite and agreed a connotation as is possible for the terms human welfare and human values, and, secondly, to consider how the wealth, welfare, and values, which 'Economics' in its various phases of development recognises, comport themselves before these human criteria. Our main concern, however, is not with economic theory, but with the actual working of economic processes and institutions, or, in other words, with the operative economic system. A survey of that operative system as a whole, and a closer consideration of some of its essential processes from the humanist or ethical standpoint, will occupy the greater part of these pages.

But before entering on this task, it seems necessary to approach the tangle of concepts and sentiments that attach to a definitely economic institution which so far has not figured prominently in our enquiry, viz., property. For until we get a clear conception of the part which property should play in human personality and society, we can hardly hope to bring intelligent, disinterested thinking to bear upon the economic activities from which property emerges and in which property functions. The very fact that no other economic term is so suffused with moral feeling is a sufficient reason for our exploration.

§ 2. There is no known condition of man where personal property, in the sense of an exclusive use and enjoyment of certain things, did not exist. Such information as is avail-

able regarding the most primitive forms of human grouping attests a recognition of a 'right' to personal property by members of the group. Such articles of property usually consist of clothes, tools, weapons, ornaments, the family hut or hole (or some fixed part of it), and food in the hut. Here is Dr. Seligman's inventory of the personal estate of a Vedda. "One axe, bow and arrows, three pots, a deer skin, a flint and steel and supply of tinder, a gourd for carrying water, a betel pouch containing betel covers, and some form of box for holding lime, also a certain amount of cloth besides that on the person." [1]

Next, as to land. In primitive society land may be communal or private, or a blend of both, that is to say, temporary private and permanent common ownership. Or land once held in common may become private property, either by breakup of the kindred or community, or by new requirements of cultivation. If a man clears and tills an unused piece of land, it may become 'his' by consent of the chief or the community. Various forms of such qualified ownership, tenure, are found, sometimes subject to rights of an overlord, or of the community. Sometimes there is periodic redistribution, as in the old Russian mir. Where there is individual hunting or fishing, the catch is usually the property of the hunter.

The rationality and equity of such forms of private property are almost universally recognised. A man rightly 'appropriates' these things. This 'right' may be said to be of double nature. In the first place, he may be said to have 'made' these things, in the sense that he has 'mixed his labour' with them, and so given them use-value. Secondly, the fact that he has done this carries a presumption that he can 'use' them for some personal need or enjoyment. Locke, indeed, limits private property by this condition of utilisation.

[1] *Property: Its Duties and Rights*, p. 11.

"As much as anyone can make use of to any advantage of life until it spoils, so much he may by his labour fix, and property in whatever is beyond this is more than his share and belongs to others." [1]

Origin and use are thus naturally related. A man makes his coat to his own fit and taste and need, so with his tools and other personal belongings: no one else could get so much use out of them. The piece of land nearest his hut is naturally worth more to him than to another. Such property is doubly 'appropriate'.

Here there emerges as a basis or principle of property what may rightly be designated a Natural Law, i.e., a code of custom or behaviour rooted in lasting conditions of human nature and its environment.

But even in a primitive community such rights of private property will be subject to two limitations, one relating to origin, the other to use. The right to own what he has "mixed his labour with" must be limited by the similar rights of others, where the material into which such labour can be put is itself limited. Where the supply of good land is limited, no man must be allowed to cultivate more than his 'proper' share. Homestead laws carry this restriction up to modern times. The claims of gold diggers are subject to a similar economy of rights. So with the 'use' of any natural resource, a spring or river, forest or pasture, exclusive rights of property are not entertained. There can be no 'natural right', in Locke's sense, to superior natural opportunities. Monopoly and rent are ruled out *ab initio*.

§ 3. Although such customary rights of property grew up, partly as adjustments of competing personal claims, partly in virtue of community feeling, without any conscious canvassing of rights and equities, we are none the less justified in tracing in them, as their underlying principle, a dawning conception of property as an instrument in the development

[1] *Civil Government*, chap. V.

of personality. Dr. Bosanquet thus expounds the Hegelian service of property.

"In property my will takes the shape of a person. Now a person is something in particular: therefore the property is the personification of this will. As I give my will existence by means of property, property in its turn must have the attribute of being this in particular, i.e., mine." [1] In simpler words, I cannot realise myself adequately as a person, unless I have allotted to me some bit of the world to do it in and with.

But if private property is justified and rationalised by its contribution to personality, two conditions seem to follow. First, every person has a right to acquire property, and a social order which fails to secure this right for all is condemned. This does not signify that everyone must actually possess property, for to that possession two conditions, as we recognise, are attached, first, that he contributes labour to its making, second, that he is capable of utilising it. The wilfully idle man has no claim upon his society to provide him with property, which is of some one else's making, and which he cannot put to a good use. But everyone has a right to the opportunity of acquiring such property, though, as we shall presently discover, not necessarily a right to 'equality of opportunity'. Secondly, no one has a right to acquire or possess property, excessive in amount, or damaging in the conditions of its making or its utilisation, such property being injurious to the personality of its owner, and usually to the personality of others, stinted of their proper share, or otherwise oppressed by the power of an economically stronger person.

Now the evolution of all modern civilised societies has notoriously failed adequately to conform to either of these sound conditions, relating property to personality. The dis-

[1] *Civilisation of Christendom,* p. 327. See also his essay in *Property,* p. 61.

tribution of the opportunities to acquire property has almost everywhere contravened both aspects of the 'natural right'. Most men are not able by 'mixing their labour' with natural resources, or the product of such natural resources, to acquire sufficient property to develop this personality in accordance with the demands of modern life. A few are able, either without labour, or by a disproportionately small amount of labour, to possess an amount of property greater than they can, or do, utilise in the development of their personality. This seems a pompous way of expressing the related defects of poverty and luxury, the familiar results of a failure of the natural law of property to function effectively in a developed economic system.

But it is worth while trying clearly to realise how the equities and utilities of property, as they appear in a primitive society, have been shed by modern conditions. When a man used the things he made, his food, his clothes, his tools, or hut, both labour and use, production and consumption, were closely attached to the same personality, or, taking a more realistic view, to the same family group. Modern conditions of industry have visibly and progressively sundered the two aspects of personality, the producer and consumer. Seldom, if ever, can an individual in modern times *make* the whole of any thing, and seldom does he use or enjoy the thing he has made or helped to make, except so far as relates to the surviving minor activities within and around the home. He contributes to the making or moving of great quantities of some single sort of salable things, and he uses an immense variety of things which innumerable other unknown persons have made.

This severance of the personality of everyone on its economic side into a specialised producer and a diversified consumer is a breach of the simplicity of the natural rights of property so serious as to have transformed both the nature of property itself and the attitude of the modern mind to-

wards it. Even when we are dealing with the sorts of property which are still most personal in their use, food, clothing, house, and furniture, the fact that on none of them, in all probability, have we stamped the impress of our own labour involves a subtle change of sentiment from that attaching to things which were the embodiment of our personal skill and effort.

But still more important is the fact that, for the modern owner of property, that property has ceased to be concrete and tangible, with the exception of landed property which still remains 'real'. It is either conceived in general terms as purchasing power, a general command over all sorts of goods and services, or else more commonly as monetary liens upon remote instruments of production held in association with other capitalists, none of whom has a particular separate claim upon any single bit of the property, railway, mine, factory, or other plant in question. The modern man of property has seldom touched or seen any piece of the concrete wealth of which he is joint owner. It means nothing to him except in terms of abstract economic value. His property is something that yields him income, which he may or may not convert into concrete tangible goods for his personal use or enjoyment. This is what modern capitalism has done to property. The core of capitalism is its financial technique, i.e., the bookkeeping concept of capital as "a debt owed by a business concern to its proprietors". This has rationalised business by depersonalising it. The term "*societé anonyme*" is even more expressive of its nature than the terms joint-stock company and corporation, respecting which the familiar jest that "it has neither soul to be saved, nor body to be kicked" has deep ethical significance. For though the operation of these capitalist instruments means much for weal or woe to their human operators, and to the whole world of producer-consumers, in which they operate, their legal economic owners have no effective personal re-

sponsibility for these influences over human welfare exercised by their property. This divorce between property and responsibility is made more absolute by the terms under which an ever-increasing quantity of investment is conducted. Trust and investment corporations finally dispose of any scruples which the investor might entertain in selecting the channel of employment for his money, as regards the utility or human services rendered by the business into which his money flows. The modern owner of property is often unaware whether he is engaged in the liquor trade, in the rack-renting of city slums, or in the conduct of some sweated industry. Anonymity and indirectness are effective screens.

§ 4. The first property in 'capital' was the extra food grown and saved for leisure in which to make the first tool, the tangible visible product of the personal effort of the owner-user.[1] Modern property in capital, detached entirely from the personal control of savers, becomes a natural force, leaping barriers of time and space, existing eternally in interest-earning assets incorporated now in this industrial material form, now in that, moving freely from place to place in the economic system, and passing from one owner to another by sale, gift, or inheritance. It is economic

[1] Biology finds a still earlier origin for capital. "The tendency to save something from one meal to tide over the interval between it and the next is as old as the evolution of living things. In simple unicellular animals, such as the amœba, certain granules are stored in the body; these granules we may truly regard as savings—food or fuel which the amœba will presently utilise. When we pass a step higher in the scale, to a stage where the progeny of a single cell, instead of separating and leading lives independent of each other, remain clustered together, so as to form a society of microscopic units, a state represented by sponges, we find the saving habit is still preserved, especially by certain individuals. As we ascend the scale still further, and to a stage where the society of cells has become so united that we speak of the community as a single animal, we find that there is one kind of cell which has acquired the saving habit much more than any of the others—namely the cells of the female body which are to serve the purpose of procreation". (Sir Arthur Keith, *Man's Origin*, p. 51.)

power in its most abstract form, capable of materialisation for a period in any chosen specific shape. The interest it 'earns' for its owner releases him *pro tanto* from all obligation of current labour.

This realisation of property in terms of power is well expressed by Professor L. T. Hobhouse.[1]

"Thus, while modern economic conditions have virtually abolished property *for use* — apart from furniture, clothing, etc., for the great majority of the people—they have brought about the accumulation of vast masses of property *for power* in the hands of a relatively narrow class. The contrast is accentuated by the increasing division between power and use. The large landowner stood in some direct governing relation to his estate. Responsibility went with ownership, and even survived the explicit association between land tenure and political functions. The capitalist employer who began to be differentiated from the workman in the earlier part of the modern period, and who was the prominent feature of the first two generations of the industrial revolution, was still, as the name implies, the employer as well as the capitalist. He himself, that is to say, was actively engaged in carrying out the function which his property made possible. But with the progress of accumulation there came further differentiations. It became more and more indisputable that the possession of capital was one thing and the conduct of business another; and with the rise of the joint-stock system capital became so split up into shares and stocks that it has come to be for its owners nothing more than a paper certificate, or an entry in the books of the Bank of England, which they have never seen, meaning to them only what it brings in by the quarter or the half-year. And yet these investments, this capital, is the governing force in the lives of thousands and millions of men scattered throughout the world. It is the instrument by which

[1] *Property: Its Duties and Rights,* p. 22.

they are set in motion, by which their labour is sustained, above all, by which it is directed and controlled. The divorce of functions is complete; and what wonder if the owner of capital presents himself to the imagination of the workman merely as an abstract, distant, unknown suction-pump, that is drawing away such and such a percentage of the fruits of industry without making a motion to help in the work."

"Lastly, behind the mass of the investors, is the financier, who shuffles all these abstract pieces of capital about, controls their application, takes his commission on the proceeds, and constitutes himself the working centre of industry and commerce. The constitution of property has, in its modern form, reached its zenith as a means of giving to the few power over the lives of the many, and its nadir as a means of securing to the many the basis of regular industry, purposeful occupation, freedom, and self-support."

§ 5. With this growing abstractness of modern property its relations, psychological or other, to human personality have shifted. It might perhaps have been anticipated that, as the personal contact of owners with any concrete piece of property became more remote, as their property took altogether a more abstract character, the intensity of the sentiment towards property, its sacredness, would be weakened. This, however, does not seem to be the case. There are, I think, two chief causes that intensify the modern sense of property. One is the prestige attaching to success in the business world. Though war is not banished from our world, and even threatens to resume its earlier predominance as the chief arbiter of fate, we are not militarists in normal times. Nor does the ordinary citizen concern himself much with politics, save at rare critical moments. The influence of religion and the churches over the minds of men in most civilised countries has perceptibly diminished. Science, art, and literature are still, as ever, the passions and prizes of the

few. Sport, it is true, at least for the English-speaking nations, furnishes a field of personal glory and prestige with which even business cannot compete. But, after all, for the great mass of active humanity the acquisition of money is the absorbing occupation of ordinary life. Of course, this predominance of the economic activities of man is not a new thing. But the older economic life was regulated far more largely by status and custom: precarious enough in detail, its general character and conditions were fixed for most men. The modern economic system affords far more freedom, fuller and more varied opportunities for personal success or failure, at a quicker pace and on a larger scale than formerly. Its conscious value for most possessors is the liberty and license of which it is the necessary instrument. Moreover, for increasing numbers of men and women business has joined hands with 'sport' in its appeal to hazard and the gambling spirit. So the acquisition of the moneyed property through buying and selling stocks and shares is forcing the zest for easy, quick, spectacular wealth upon ever larger sections of our peoples. Thus men come more and more to be valued for their property. Their wealth is 'what they are worth'. For an increasing number of people property, irrespective of origin or use, has, therefore, become an object of 'worship', conferring importance and honour upon its possessor.

Nor is that all. To a larger extent than ever before property is the fountain of power. Political and social castes have broken down almost everywhere before the impact of new wealth, and property is the key to personal importance. In the earlier stages of acquiring property, the solid advantages of material security and comfort compete with the zest of successful struggle: but established men of property ever tend to value their wealth more for the social consideration it brings and the visible satisfaction of seeing other persons bend to their will. The conditions of the modern world

favour this economic determination of history in its private personal details.

§ 6. This higher conscious regard for property is greatly strengthened by the challenges and attacks of revolutionary thinkers and organised proletarian movements. The machinations of organised labour, on the one hand, of political democracy, on the other, have always seemed to threaten the fortresses of property. Trade unionism and working-class coöperative movements have sought to sap some of the profitable sources of capital, and to feed a resentment against aggregated wealth in the mass of unpropertied workers. Political democracy, especially in its revolutionary movements, was evidently fraught with perils to property. Its equalitarian temper could not be content with formal political equality: it must favour a levelling economic policy, interfering with large landed estates, industrial and commercial monopolies and privileges, taxing the rich for the benefit of the poor, and crippling profitable individual enterprise by socialistic legislation. When a class-conscious proletariat combined the methods of economic and political attack, in order to seize and exploit the full powers of political sovereignty for workers' control over the economic system, property as understood by its possessors seemed doomed. Although in the most advanced capitalist countries the organised workers have not in fact shown much ability or will to utilise the power a popular franchise seemed to give them, to improve their economic status at the expense of the propertied classes, the object lessons given by Soviet Russia and by revolutionary spasms in other countries after the Great War have everywhere contributed to give a higher conscious value to property as a possession and an institution.

§ 7. For these reasons, while property in its economic origins and functions has been getting more and more impersonal and intangible to its owners, the sense of the rights and sanctity of property has been more intensely developed

among the owning classes. A curiously unreasonable state of mind emerges. The actual conditions of most economic production to-day are so intricately coöperative that no person can lay his hand on any serviceable goods and say "'I made them', therefore they are, or ought to be, my property." Even where a man or a group of men seem to produce goods, in the shape of wheat, coal, shoes, their claim ignores the co-operative labour that has gone into the tools, machinery, and raw materials, necessary for their effective work. But even were we to impute the entire production of a ton of coal to the miner who has gotten it, or the quarter of wheat to the farmer who has raised it, this does not carry us far towards the 'right of property' in it. For the coal miner and the farmer produce coal and wheat, not primarily for their own use, but for the market. The 'property' they are after is not the concrete goods they claim to produce, but their *value* as expressed in price, and as interpreted in power of purchase over general commodities. Now this brings into play all the factors on the demand side of the price equation, that is to say, all the coöperative processes engaged in making and marketing all other sorts of goods and services which in the last resort are to be exchanged against a ton of coal or a quarter of wheat, and constitute their real value, the gain got out of them, the 'property' they represent. This quite plain statement of what we may call 'the social determination of value', though familiar to every educated person, is completely ignored by these same persons when the spot light of impassioned interest is focused upon an issue affecting their right of property.

The simplest illustration of this is found in the attitude of mind of propertied persons towards the taxing-power of the State. Without denying that property may rightly be called upon to contribute its share to the necessary expenses of a State, property owners habitually express their resentment at any new tax proposal, on the ground that it seeks to take

something which belongs to them because they made it. A sheaf of letters recently contributed to the *Times*, in reprobation of the proposal of a sur-tax upon the higher grades of unearned incomes, sustained this accusation. It seemed to the writers quite irrelevant to discuss the purposes to which such an increase of public revenue might be put, whether debt-redemption, or increased expenditure on health, education, or other social services. They had made this money, and the government had no right to take it from them! Now what had they actually done towards making this money? They had received it either as payments in fees, salaries, or profits for business or professional services which they had rendered, or as rents or dividends on lands or securities which they had obtained either by saving income obtained in any of the above-mentioned ways, or by inheritance. Now, as for inherited wealth, the claim that they made it could not, of course, be rightly maintained. But, since the persons from whom they inherited may have made it, their right of bequest was held to carry with it the same immunity from confiscation which they claimed for what they made themselves. The sentiment of the solidarity and continuity of a family, especially in relation to landed estates, helps to fortify this view in countries where family traditions still hold sway. As for the other sources of acquisition of property, the claim to have made the property runs down to the claim to have done something towards making it. This 'something' may be so substantial and so intimately related to the payment received as to give a very plausible support to the claim under discussion. Piece-wages, or other payments commensurate with the amount of work done by a particular individual, will naturally appear to the recipient as earnings he has 'made', though a rise in piece-rates, which give him more money for the same work, will not seem in any way to conflict with this appearance. On a higher level, we find the inventor of a new instrument or process, the dis-

coverer of a new market, the successful administrator of a competing business, even the maker of a trust or combine complacently assuming that the gains that come to him from his activity constitute a property which he has made by his personal effort. So also of the writer of a successful novel, or the painter of a picture, whatever payment he receives is a property that belongs to him because he has made it. When a business man, a professional man, or an official, invests money out of his earnings, the interest of his investment is also felt and believed to be money he has made by his exertions and sacrifices.

§ 8. The full study of this mentality belongs to our later analysis of the sources of income, and of the processes of bargaining by which the several sorts of income are determined. For the present, it must suffice to call attention to the naïveté of the assumption that the economic system on its distributive side is and must be satisfactory from the ethical standpoint. For the 'moral' defences of inequality of distribution of property rest ultimately upon this assumption. These defences are two.

(1) Industry, intelligence, foresight and thrift, character — these personal factors are the true sources of success, and property is their encouragement and reward. Remove the prospect of great personal gain and you sap the sources of economic progress, so injuring not only personality, but community. In effect, the tacit assumption underlying this whole attitude of mind is that, if my personal activity, or the activity of any economic resources under my control, contributes towards the production of any economic goods, the payment actually accruing to me from this contribution is something I have made. If, then, any outside power, the government, or some conspiracy of labour, attempts to take any part of this money, by pressure of taxation or extortionate wage-rates, such action amounts to a confiscation of my property, i.e., that which properly belongs to me. Below

this assumption, however, lurks another, to the effect that the process which I have called the social determination of price is an equitable process, in that it assigns out of the general body of wealth to each what 'belongs' to him, what his contribution to its making is 'really worth'. Not only is the social determination of price an equitable law. It is, in the strict sense, a natural law. For if you were to distribute property equably to-day, in a very short time divergencies of character, aims, and uses, would restore the old inequality. Poverty is the natural result of personal inefficiency, wealth of personal efficiency. There are exceptions, but the rule holds good.

(2) The other defence virtually ignores origins in its appeal to uses. Property is a 'stewardship', a 'trust', valid if it is well administered for personal and social purposes. This is a doctrine of ancient respectability. We find it evolving in the early history of the Christian church as an escape from the communistic doctrine. Here is a passage from St. Clement of Alexandria. "Our Lord does not, as some suppose, command the rich man to throw away his possessions, but to cast from his heart the love of gold, with all those cares and preoccupations that stifle the germs of life . . . What new thing does the Son of God teach us in this? *Not an exterior act* such as many have performed, but something higher, more perfect, and more divine, the outrooting of passions from the soul itself, and the renunciation of all that is alien to its nature . . . Worldly goods should be considered as materials and means to be used for pious purposes, to be turned to good account by those who know how to use them skilfully." [1]

Here is the rationale of Ruskin's new chivalry, of landlords who shall administer their estates, not for the extraction of a rent-roll, but for the useful employment of a well-remunerated and contented peasantry, and for the production of the

[1] Quoted in Nitti's *Christian Socialism*, p. 70.

nation's food, and 'captains of industry' who shall run their works with the same active interest in the welfare of their employees and the community. Such properties are justified by their uses. This doctrine was sedulously taught by one of the ablest English philosophers of our generation, Dr. Bosanquet, who tells us that "if one has more than enough to live on, that is a *charge* — something to work with, to organise, to direct."[1] How one comes to possess "more than enough" is a question deemed irrelevant to the moral issue. Why scrutinize origins if good use is made of wealth?

This doctrine of property as a public trust has received a good deal of support from economists, who, while admitting and deploring the extravagance and waste of certain classes of the 'idle rich', point out that an increasing share of great modern fortunes is utilised for definitely social purposes.

For (1) either it is put back into industry as reserves or new capital, so maturing in a continual increase of productivity for the general gain; or (2) it goes into educational, scientific, and charitable purposes for the improvement of life.

Mr. J. M. Keynes, writing of the development of the English industrial system in the nineteenth century, urges that "it was precisely the *inequality* of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital improvements which distinguished that age from all others." "Like bees they saved and accumulated, not less to the advantages of the whole community because they themselves held narrower ends in view."[2] The touch of Smith's "invisible hand" apparently still adheres to modern economic theory! But it works in a mysterious way, for it defies not only equality but equity. "The immense accumulations of fixed capital which, to the great benefit of mankind, were built up during the half century before the war, could never have come about in a society where wealth

[1] *Civilisation of Christendom*, p. 332.
[2] *The Economic Consequences of the War*, p. 19.

was divided equitably." [1] Whether it is, or can be, true that industrial welfare depends upon an inequitable distribution of wealth, is a thesis to which we will return in our closer discussion of the place of capital in the economic system. We cite it here as the frankest expression of the claim of wealth to be the unintended servant of humanity.

§ 9. In close association with the 'stewardship' defence of riches is another. It has always been contended that a wealthy leisured class, withdrawn from the pressure of economic necessity, was an indispensable condition of the growth of learning, literature, and all the finer arts of civilisation. The patrons, and sometimes the practitioners, of culture were men of wealth and leisure. In the ancient civilisations of Babylonia, Assyria, Egypt, India, princes and nobles called into being the great arts of architecture, sculpture, and painting. The flowering of Greek and Roman art and literature, science, and philosophy was the cultivated product of an oligarchic caste living on servile labour. The art and poetry of the Italian renaissance, of Elizabethan England, the dawn of modern science and learning in the monasteries and universities of Europe, were only possible upon the basis of patronage and endowment by which leisure was won for works of disinterested curiosity and experimental skill. So it has been up to our own time. The support and stimulus given in Eighteenth Century Europe by courts, titled patrons, and aristocratic coteries, in Paris, London, Weimar, have been in some measure displaced by broader educated publics, less wealthy and less leisured. This democratisation of culture is a new page in human history, and to some it spells debasement of its finer qualities. The broadcasting of learning, literature, and art, by schools and colleges, museums and galleries, books, lectures, magazines, and newspapers, is a disturbance of the old order. But it is not cultural democracy; it is not the genuine intellectual self-

[1] *Idem.*

expression and self-government of the peoples. For in its making and growth, though the patronage of an intellectual *élite* is no longer dominant, the influence of wealth is not diminished. A new patronage and a new direction of the cultural arts have come with the rapidly made fortunes in finance and industry. In the older aristocracies of birth or commerce certain traditional standards of taste and value prevailed, unduly conservative perhaps, but preserving continuity of the cultural arts. The new plutocracies exercise their control with no such safeguard. Whether they follow their own usually untutored tastes as patrons and collectors for private enjoyment and prestige, or as 'trustees' and 'stewards' for the public, what guarantee is there that their expenditure is not abused? The application of the term 'trust' to the property a rich man chooses to apply to public purposes is a misnomer, if it is held to signify some moral purpose. For the moral test of a trust or stewardship is the capacity to make good use of the commitment. Now why should it seem reasonable that a man, who has by modern business methods amassed a large fortune, is qualified to administer that fortune for the public good, by endowing universities, missions, churches, museums, libraries, hospitals, or scientific research? There exists no natural harmony between these processes of acquiring and spending wealth. It may, indeed, be held likely that a man, well qualified by ability and character for great success in the rude struggles of the business world, is exceptionally ill-qualified to spend his money for the good of others. But be that as it may, the art of spending great wealth for the public good is so difficult and delicate that to entrust it to those who have no other claim to possess this art than that they have been able to extract this surplus wealth from the modern business system is a manifestly foolish proceeding. The primitive man who has made a spade or a hut may quite reasonably be expected to make the best use of it by using it himself. But a modern

business man who has made a pile has by so doing probably disqualified himself for using it to the best advantage, even for his own benefit, much more for the benefit of others. While, therefore, we may commend the millionaire donor for his generous spirit and benevolent intentions, we cannot regard him as a safe administrator of a public trust. If it be replied that experience belies this criticism, in that great acknowledged advances in education, hygiene, morals, and many of the arts and sciences, are due to the munificence of millionaires, and could not have been financed in any other way, two rejoinders are possible.

In the first place, it may be urged that oligarchic patronage of culture has imposed standards of value which have no objective validity, that, in other words, they promote artificial culture, expressing not the healthy harmonious tastes, activities, and interests of ordinary men and women, but the decorative refinements of a parasitic leisure class, evolved for the expression of personal power and prestige. Those of us who have been exposed from childhood to the subtle influences of these prevailing intellectual and æsthetic standards must in the nature of the case be disqualified for a disinterested valuation of them, while for the excluded populace the very sense of this exclusiveness will naturally tend to resentment and disparagement. Take, for example, the controversy waged around the cultural virtues of Hellenic literature and art. Who shall assess the part contributed to the appreciation of these virtues by the inherent beauties and refinements of these cultural achievements, and the part contributed by the sense of personal elevation by reason of the rarity of such appreciation? The self-appraisement of high scholarship, attesting marvels of refined and elevated achievements which only a few accomplished minds can adequately apprehend, cannot be regarded as a sufficient reason for incorporating the language and literature of Greece as a mainstay of culture for the youth of to-day, the great majority of whom by

common admission would not attain to a level of scholarship sufficient to enable them to garner the finer fruits of Hellenism.

But if there is danger in entrusting cultural valuation to an intellectual class withdrawn from the common lot and prone to overrate their rare possessions, a still graver danger arises from the disparagement of the finer and more delicate fruits of culture by the crude patronage of the *nouveaux riches*. For if the quick millionaire is true to his real standards, not only history but poetry and all the wealth of genius in literature and the fine arts will be simply 'bunk'. If, on the other hand, he sets his untrained business mind to the appraisal and encouragement of the higher learning, he is liable to do still graver injury to the more sensitive forms of this learning.

But, it may be argued, at any rate the services rendered by the donations of the rich to the encouragement of the sciences and to practical philanthropy are not seriously exposed to such damages. The endowment of scientific research into tropical diseases, expeditions of geographical or ethnological discovery, the provision of parks, hospitals, museums, and other wholesome and useful apparatus, even if motived, in part, by personal pride and love of praise, are solid human gain. Now this may fairly be admitted with one considerable qualification. Whenever the living hand of private benefaction is laid upon the sciences most closely related to the current conduct of human life, biology, psychology, philosophy, history, economics, politics, sociology, there will be some conscious or unconscious moulding of these studies in accordance with the interests and intellectual proclivities of present or prospective donors. The very richness of the humanity in such studies renders their facts and interpretations more liable to selection, rejection, and interpretation in the light of preconceived ideas, and these ideas will be likely to harmonise with the interested mentality of

the munificent. The blunt vulgarity of the saying that, 'He who pays the piper calls the tune', has subtler applications. In tracing the evolution of Political Economy, we have already exposed the essential truth of the economic interpretation of economic science. As the social sciences take on ever more distinctively a psychological aspect, psychology itself, pure and applied, individual and social, will be the science most exposed to the half-conscious manipulation of those propertied interests which scent danger in some lines of advance, security and gain in others. Even the munificence which takes shape in works of true humanity, the relief of human want, ignorance, and pain, has a protective value for riches, serving to abate resentment at the inequality of distribution of this world's goods. The knowledge of this tends in some measure to a wastage even of the wealth available from private sources for such relief works, throwing an undue proportion of it into the more showy lines of philanthropy, too little into the study and furtherance of the less direct but more radical measures of relief.

§ 10. But there remains an even more serious criticism of the 'stewardship' defence of riches. We have already noted that defenders of the present inequality insist that much good work done by voluntary munificence would otherwise remain undone. The public in its collective capacity is too poor, or too indifferent, to undertake it. And this is true. But to what are this poverty and indifference of the public due? An economic system which so operates as to assign the great body of accumulated wealth to a few individuals, as their private property, and gives no recognition to the existence and activities of the community, society as an organic whole, in the production of wealth, deprives the latter of the means to organise effectively the services which properly belong to it. The necessity of calling upon individual owners to surrender to the State out of their private property the revenue required for public services inevitably tends to

restrict those services, and to prevent a development of public activities commensurate with the more enlightened interpretation of public welfare. In earlier civilisations, where there was little opportunity to utilise the surplus productive power of the people for capitalistic enterprises, the utilities, adornments, and amenities of civic life were the natural channel into which the surplus flowed: the right and power of the community to direct what surplus energy was available into these common services were supported by a very real sentiment of the people. The individualistic trend of modern times has largely stifled this active sense of community. Community now lives on suffrance, by taxes paid grudgingly out of private purses. Its important services to the production of the body of wealth absorbed in private incomes, and the rightful income of the community in virtue of these services, fail to win recognition in the play of an economic system which distributes the whole of its product to the individual owners of land, capital, and labour. If the question were posed plainly, "Do not the public services of the national and municipal governments, for the defence and security of the citizens, for their health, morals, and education, for their personal happiness, efficiency, and progress, perform work that is directly conducive to the efficient operation of the economic system?" an affirmative answer could not be refused. Yet when economists specify the factors of production, and envisage the distribution of income among them, these community activities are almost always ignored. Wealth is treated as if it were entirely the product of private personal efforts. The community is only dragged in at a later stage: its claims are based upon necessity, or upon eleemosynary considerations, and not upon the right to draw for community life the income which community services have earned.

This formal disparagement of community, in the interests of an all-absorbing private personality, is the most distinc-

tive note of modern life. Thus starved and disparaged, community becomes indifferent, refuses to exert its will and responsibility for a life of progressive activities in state and city, and with servile gratitude allows munificent philanthropists to perform its proper functions. The issue is a grave one. The origins of wealth cannot be ignored in considering its uses. As the individual needs some command of the property he has personally helped to make, in order to realise his own personality, so the community needs command of the property it has helped to make, in order properly to realise the common life. Not even the most benevolent and intelligent of private owners can be considered competent to mould the cultural life of the community, to set its standards of æsthetic tastes, and to control its teaching of the social sciences. The apophthegm of St. Thomas Aquinas still retains its validity. "The possession of riches is not unlawful, if the order of reason be observed, that is to say, that a man possesses justly what he owns, and that he uses it in a proper manner for himself and others." But St. Thomas's judgment evokes social reflections. Having regard to what we have called the social determination of values, can it be said that riches are acquired justly? Again, can a man to whom riches have come unjustly, i. e., by economic force or cunning, luck or inheritance, be able to "use in a proper manner" either for himself or for others this wealth? Can he be relied upon to use it so as to raise the personality of others and to enrich the common life?

It is foolish to ignore the significance of such questioning. Unless property, in origin and utilisation, is set upon a basis of recognised equity, riches may be as injurious as poverty to human personality and to community. Maldistribution of property cannot be rectified by voluntary concessions of recipients, even if the rich were inspired by a wholly disinterested desire to 'do good to others'. But the man of property, whether inherited or acquired, will be a genuine be-

liever in the economic system which gave him his property. He will think that he has got it 'justly'. His acquisitive instinct will be fed by success. He will enjoy his power and personal prestige. He will resent scrutiny into the methods of acquiring property. The education he endows will tend towards quietism in social teaching, orthodoxy in religion, conservatism in politics: will favour the physical sciences and a pragmatic utilitarianism, qualified by a decorative culture superimposed upon character, so as not to stir unduly the depths of the human spirit.

§ 11. This disquisition on the dangers of property unequally apportioned and divorced from responsibility must not be understood as a disparagement of the human value of property as a social institution. Property is indispensable as a support of personality and community, and the proper balance or harmony between these functions is of paramount importance in a sound society. Certain modern characteristics of property, its unequal distribution, its defects of origin and use, and above all the severance between ownership and effective control, are found to impair both functions. But these excesses and defects must not be considered as disclosing faults inherent in the institution of property *per se*. Rightly administered private property is a social force making for genuine community of life and interests. Dr. Edwin Cannan thus expresses its coöperative service.

"At first sight, perhaps, property appears as rather a separating than a uniting force: it seems to set up separate interest and thus to divide the people. But as a matter of fact it unites them by compelling and facilitating their cooperation. It compels it at any rate where there are any persons without enormous stretches of landed property, because small patches of land do not contain all the requisites of existence, and so, if a person has only a small patch he must obtain some things from other people. If he has no land at all, it is still more obviously necessary that he should make

terms with others in order to satisfy his needs. Property facilitates coöperation by making it depend upon innumerable separate agreements between individuals and groups of individuals, instead of on decisions arrived at by society at large, acting through some sort of world-wide authority."[1]

In fact property is *both* a separating and a uniting force, according as the personality it feeds is and feels itself to be a private being or a member of a community. For the moral function of property is the humanising of these claims. But coöperation of individuals in their several interests is not community. The distinctive note of the modern economic system up to quite recent times has been a purely individualist conception of property and its function. This conception, however, is now being sensibly modified, partly by a clearer recognition of the part actually played by community in the creation of property; partly by a greater willingness to make use of organised social institutions and activities for the common good.

A stronger apprehension of the social nature of wealth-creation is coming to demand a reversal of the rôles assigned respectively to individual and community. Not how little shall the individual surrender to the community, but how much shall the community leave to the individual for the reasonable furtherance of his private personal needs, is the new ethical attitude towards property. It is an aspect of a still wider movement of thought and feeling, in favour of the whole as against the particular, and is illustrated in politics by a strengthening of the federal bond, not as implying hostility to local autonomies, but as a means of increasing the efficiency of those autonomies. More communal control over property is desiderated, in order that social personality may be better realised. This change of mental attitude is, however, slow, and the needed adjustments in political and legal institutions, involved in its effective expression, are

[1] *Wealth*, p. 84.

lacking. The tacit assumption that everyone has a moral right to anything he can *legally* lay his hands on, for his separate and sole enjoyment and use, coupled with the fact that legality ever lingers far behind the needs and equatics of each current situation, is a source of grave unrest. With spreading education and a wider understanding of the economic system, the discontent of a 'proletariat' destitute of property, and therefore crippled in personality, becomes a more potent force for the readjustment of the institution of property. Partly, it makes for a distribution of income adequate to personal saving and investment among larger sections of the people. Property thus becomes diffused in ownership, though its inequality may not be much abated. Partly, it makes for communism in a limited but growing measure, that is to say, the public undertaking of education, insurance, pensions, hygiene, recreation, and other free services for the peoples. The other important readjustment of property is the piece-meal 'socialism', which, repudiated in theory by the political masters in most modern states, is everywhere advancing in practice.[1] The public ownership and operation of certain types of industry is everywhere enlarging the property of the organised community, appreciably modifying the earlier absolutism of private property and private enterprise.

[1] The Report of the Liberal Industrial Enquiry in Britain, published in 1928, is a remarkable testimony to this change of attitude towards individual rights of property.

# CHAPTER II

## HARMONY AND DISCORD IN ECONOMIC LIFE

§ 1. Economic institutions are ethically sound so far as they are effective instruments for the realisation of personality and community. The relation of personality to community is, however, as we have recognised, a controversial issue. Most ethical thinkers and social philosophers incline to regard community as a body of social institutions or activities whose end, meaning, and value, consist in the contribution they make to personality. There is, according to this view, no group or social mind or consciousness. In dealing with this position we have laid stress upon those classes of social activities and phenomena where coöperation and interaction of private interests and purposes so modify and alter their nature and working as to give to that coöperation and interaction a special psychical character akin to personality. Thus regarded, community is not merely a set of social institutions and activities, but in effect a collective personality, a partial fusing of the individual minds and purposes in what may be termed a federal unity. If individuals utilise community in order to realise their material and spiritual aims, so does community use individuals to realise the common life. My reason for reverting to this controversial topic is that it is very difficult to frame any consistent ethical evaluation of the economic system which does not give some distinctive position and value to the physical and spiritual aspects of community. I would go so far as to maintain that in any moral reconstruction of economic life a central issue

is that of providing for the harmonious relations of individuality and community as coördinate values.

In support of this position I would appeal in the first instance to the two attempts at a presentation of the economic system as an operative unity which have come up in the last two chapters, viz., the doctrine of 'the invisible hand' and the theory of 'social determination of value'. Although the earlier of these doctrines was intended and used to justify liberty of individual enterprise as a sufficient principle of economic life, the presentation of the natural harmony involved in its support is in effect a naïve doctrine of community. Regarded as an application, within the economic sphere, of a providential design which to Adam Smith, as moral philosopher, was applicable to all human life, it contains a plain assumption of a general directive purpose playing through the economic system as an organic whole, and thus securing coöperation and harmony of particular individual interests and purposes. Similarly, the social determination of values, to which we made reference in our discussion of property, presents the same doctrine in a somewhat different shape. It indicates how the current economic system, working as an organic whole, under the regulation of various legal, customary, and other social conditions, determines and assigns at each several point in that system the share of the general product which falls to each coöperant member. Here also, as in the Smithian harmony, it is the economic system, as an operative community, that is held to allot to each individual his share, "what he is worth", as a member of the economic community.

§ 2. If, then, we are to bring ethical criteria into the field of economics, we are bound to direct them in the first instance, not to the detailed activities and claims of individuals, but to the structure and functioning of the organic system as a whole. Our presentation of this system, as a social determination of particular values, merely states the facts

and not the equities of such determination. There can be no presumption from this social determination that the real needs and interests, either of personality or of community, are rightly and effectively satisfied, that each participator actually gets "what he is worth". There is, however, a presumption, nay, an assurance, that each participator gets out of the social distribution what is sufficient to enable and induce him to contribute what he does contribute to the production of the wealth that is distributed. The economic system evidently works, but does it work equitably and efficiently? The two conditions are not always closely related. A slave system, violating the elementary rights of man, may, under intelligent management, work efficiently. An exclusive class of landowners may live in comfort upon rents extracted from peasant cultivators of the soil, provided that they leave enough of the produce to induce the peasants to do their best by the land. Industrialists may get their mines and factories worked efficiently, provided they pay wages of efficiency, that is to say, wages sufficient to replace the current wear and tear of labour *plus* such additions as custom or the bargaining power of the workers can secure. Here two distinct determinants emerge. The continuous replacement of physical wear and tear is a physical law of wages: it regards the worker as a machine to be fed with fuel, provision for replacement being made in respect of his physical structure. An intelligent slave-owner pursues this policy: an employer of 'free labour' need not, however, make provision even for replacing 'wear and tear', provided he can throw this cost upon 'the community'. But the economic system demands as its first principle of efficiency that either individual employers, or society, shall maintain in physical efficiency the quantity of labour-power needed to support the fabric of that system and to provide for such increase as may be required. Excepting in so far as some addition to this pay, in respect of customary dues or an established standard

of comfort, is supported by some feeling of 'right', it cannot be held that any close linkage exists between the efficiency and the equity of such a system. An exceedingly inequitable distribution of income may be consistent with efficiency, where custom or mental inertia maintains a moral acquiescence in the existing modes of distribution. But when the workers become aware of the inequities of their economic situation, this consciousness reacts upon efficiency by causing an unrest and discontent with the current 'social determination of values'. When an actual sense of the inequity of distribution obtains lodgment in the minds of large sections of the workers, it interferes with the earlier automatic efficiency. When the workers perceive, or think that they perceive, a large share of the product of 'their labour' taken from them by landowners, capitalists, and profiteers, whose productive services they do not recognise, a new proletarian mentality becomes an economic factor tending to reduce the efficiency of the economic system. This class-conscious antagonism between labour and capital, or more directly between labour and the profit-seeking entrepreneur, thus engendered, is by general admission a peril to economic order and progress. The question whether, or how far, the new claims of labour to more wealth and more leisure as equitable rights are justified can only be answered adequately by a close analysis of the processes of bargaining and price-fixing, to which we shall turn presently. For the moment we are concerned to note this new moral fact of widespread and intense discontent on the part of large sections of workers with the economic lot which the operative economic system assigns to them. This new moral fact is everywhere interfering with the efficiency and productivity of industry, impairing the harmonious coöperation of the human units in the economic system. It has become evident that, if efficiency is to be restored to the system, some conscious policy of 'industrial peace' must be applied, in order that the efficient

coöperation of the factors of production may be secured by such readjustments in structural relations as are recognised to be feasible and equitable. This exploration of industrial peace has emanated more from groups of enlightened industrialists than from class-conscious labour. There are, however, many signs in industrial Europe and America of an increasing willingness of workers and industrials to experiment in methods of attaining industrial peace, with a clear recognition that the existing economic system does not adequately fulfil the equitable and harmonious functions with which the classical economists endowed it.

§ 3. A brief consideration of these methods of reconciling divergent interests will be extremely serviceable to our wider purpose of an ethical valuation of the economic system. Its prime service will be the testimony it affords of the failure of the practical reformer everywhere to recognise the inadequacy of the separatist treatment of organic diseases. The shape taken by this separatist fallacy in attempting to solve our present problem runs as follows. The conflict of interests, real or apparent, between capital and labour can best be pacified by separate action first within each business, then, so far as capital and labour are organised by trades, within each trade. Thus the edifice of industrial peace will be built upon solid foundations of detailed human relations. Do not impose theories or principles from on high, but work from below upwards along lines of tested experience in concrete cases. Now if we follow out the implications of this patchwork method of achieving peace and justice, we shall recognise alike its limited utility and its ultimate futility. The traditional psychology of the business man in the western world prohibits alike any adoption of principles of organic reconstruction that have not emerged as legitimate inductions from trial and error in particular cases. Nor is it only to the business man to whom wholesale schemes of reconstruction make no appeal. The ordinary workman, how-

ever dissatisfied with his economic lot, has little use for large revolutionary ideas and policies. Though those who, by reason of his refusal to think, have forced themselves into leadership, may formally commit him to large revolutionary policies, they cannot commit him to sustained activity along such lines, and their half-awareness of this impotence imparts an air of unreality to their revolutionary professions. This is well illustrated in the keen appreciation which Soviet revolutionists in Russia have manifested of what seems to them the hypocrisy of British labour leaders. Hypocrisy, or conscious insincerity, it is not. The trade unions or labour congresses and conventions, where high-sounding socialistic formulas are adopted by slackly chosen delegates of local groups, are well aware that these formulas and the policies which they comprise have very little purchase on the minds of the rank and file of labour, exclusively concerned with defending or bettering the conditions of employment in their local trades or, still more insistently, in the particular businesses in which they are employed. Though in rare emergencies they can be led into the active endorsement of some large concerted policy, such as the strike of 1926, their normal mind reverts to short-range local, specialised, and concrete opportunism. In such an atmosphere there has grown up in the different trades and businesses a large complex and varied machinery for adjusting the relations between employers and employees, joint committees, boards of conciliation, devices of sliding scales, Trade Boards, Whitley Councils, and other modes of settling differences and promoting joint interests. This machinery assumes both a harmony and a diversity of interests in employer and employed, and its aim is to increase the harmony and to diminish the diversity. But the point of importance here is that this machinery has grown up almost entirely in response to the needs and circumstances of employment in the several local firms and trades, expanding into provincial or national instruments

where capital and labour in the several trades are strongly organised upon these larger scales. There is, indeed, a growing element of wider social control exercised by the State, by regulations touching the health and safety of workers, unemployed relief, and other matters where inability of employees to make adequate protection of their interests is presumed. In recent years an even more significant State action has evolved in Great Britain in the shape of Trade and Wage Boards for the regulation of wages in a number of less organised trades, though in their constitutions the authority of the State is used very sparingly to override the separate self-government of the trade through its chosen representatives. The imposition of a common wage-rate in a trade by the will of a majority of the representatives of employers and employed does, however, constitute a surrender of the complete autonomy of the single business, which in the business world at large still stands as the first principle of economic government. In Britain a further advance has been made in the establishment of a National Wage Board for the determination of wages and other conditions of employment in the railroad industry, while the Industrial Court, set up in 1919 to determine trade disputes between employers and employed, though void of compulsory powers of settlement, indicates a further recognition of the right and obligation of organised society to intervene in what were hitherto considered purely private quarrels. If we turn to the experience of Australia, New Zealand, and Canada, and still more recently to Germany and Italy, we find the emergence of two definitely social processes of control, first the imposition of compulsory arbitration, and secondly, the formulation of a fair wage by the criterion of the needs of the worker and his family. Thus at different paces in various countries a sort of national suzerainty is set up over the autonomous trades and businesses, with the objects of imposing industrial peace and of securing equitable conditions for the workers.

§ 4. Experience in this social-economic policy has by common admission not been an unqualified success. And the reasons are not far to seek. A central tribunal is not in possession of any principle or criterion enabling it to determine a fair wage or other equitable conditions in the wage-bargain, nor has it any power to compel employers or employed to accept conditions which may be unsatisfactory or even financially impracticable. The failure of Australian judges to provide any reliable definition of a 'living', a 'fair', or a 'reasonable' wage is not surprising. For the stubborn fact of the complete financial autonomy of every business, the fact that the prices it can get for the goods it sells are the only source out of which it can pay wages and interest on its capital, stands in permanent conflict with the claim of an outside body to fix a fair or reasonable rate of pay. It is, no doubt, true that such a Court may take the view that no rate is reasonable, or fair, which is beyond what the business or trade in question can pay. But such an interpretation is in effect an evasion of the obligation imposed upon it, to secure a 'living', or 'fair', or even a 'subsistence' wage. For it implies that prices and profits must govern the interpretation of these terms, and that the standard of living of employees may vary indefinitely with conditions of trade. This is, of course, a complete surrender of the duty with which such a tribunal is entrusted. If, on the other hand, it insists on a wage-award, which is either so high that it cannot be met out of the income of the business, or so low that the employees will not consent to work for it, the Court is virtually powerless to enforce its award. With due acknowledgment of the valid argument that the obligation to pay a higher price for labour may and often does induce employers to discover other methods of reducing 'costs', it cannot be contended that the 'reasonable' award of a tribunal can necessarily be met by such adjustments. So long as the basic principle of industry is that every business is dependent for its finance

upon the quantity of goods it can sell and the price it can get for them, and that this income is the only source out of which wages, interest, and other costs can be met, the attempt of any outside body to regulate wages by some general principle of equity or humanity cannot be successful. It is a well-grounded suspicion of this dilemma that has in countries like England and the United States preserved substantially intact the autonomy of the separate business in most departments of industry and commerce. The organisation of capital and labour within the several trades has, indeed, tended to the establishment of common codes of bargaining and common standards of labour conditions, but the ultimate contract is between the worker and the employer in the separate business, and out of the proceeds of that business all labour and other costs must be met. On certain recent modifications of this situation, brought about by cartelisation and other combinations involving some measure of joint finance, we shall touch later. At present our argument centres round the disclosure of the difficulties attending the attempt of organised society to secure conditions of industrial peace. Here we find a fundamental contradiction between the social determination of the value, or real income of a business, and the obligation of that business to pay a 'fair' wage to its workers, or we may add, a 'fair' dividend on its capital. It is this contradiction which makes it impracticable to seek a satisfactory solution of an industrial conflict within the separate area of the particular business or trade. For, as this social determination of value means that the particular business cannot in reality control the income at its disposal, it, therefore, cannot safely undertake fixed payments out of this income. And what is true of the single business is also manifestly true of the single trade. Its financial prosperity or adversity though due in part to the skill, energy, and enterprise of its constituent members, is mainly due to the general productivity of the economic system as a whole, which de-

termines how much or how little of all other sorts of wealth are obtainable for a given product of the trade in question.

§ 5. Under such conditions it is inconceivable that any serious dispute within the area of a single business or trade can be satisfactorily settled on the hypothesis that only the capital and labour of that business or trade are involved. The whole course of experience in private or public arbitration bears out this judgment. Take any concrete case where the workers in a business or trade claim a rise of wage-rates, in order that they may attain a fair or reasonable standard of living. How is it possible that this claim can be adjusted by a tribunal which is unable to look outside the facts and figures of the business or trade in question? There is no accepted principle either of equity or of finance applicable to such a case. When a business or a trade is prosperous, and earning large profits which normally would pass to its shareholders in high dividends, how is the demand for a rise in wages to be decided? The workers, let us say, are already in receipt of a wage adequate to maintain their current standard of living, and as much as is obtainable in other trades demanding the same amount of skill and energy. What is their equitable claim upon a surplus that is due, either to the skilful management of this industry, or to the cheapness of its raw materials, or to the rapid development of new markets enabling a larger product to be sold at a higher price, or to a trade agreement to restrict output in order to raise prices? If the surplus profits are due to the first of these causes, superior management, the workers have no obviously equitable claim upon them as against the shareholders: if they are derived from any of the other sources, they seem to represent a corresponding loss to other trades or to the consumers who are called upon to pay the higher prices, i.e., to exchange a given quantity of their produce for a smaller quantity of the produce of the prosperous trade. The surplus is a sum in excess of the economically necessary re-

muneration of the capital and labour in the business or trade, and there is no equitable rule for its apportionment as between dividends and wage-rates. 'Why should the workers in this business be paid more than the workers doing the same sort and amount of work in another less prosperous business in the same trade?' or, 'Why should the whole body of workers in a prosperous trade claim for themselves a surplus which is got by charging higher prices to workers in other trades for the goods these latter purchase with their wages?' It is manifest that such surpluses cannot be apportioned to the capital and labour of the particular business or trade where they emerge, on any principle of justice.

Or, take the converse case, that of a business or industry which makes not a surplus but a deficit, i.e., a gross income insufficient to pay its capital and labour the market rates. A claim by the employers for a reduction of wages upon the ground that their funds are inadequate to pay the current rates is countered by the workers' plea that the proposed reduction is a 'sweating' rate, an 'unfair' wage. The employers press a point of equity, viz., that as the workers get a share of trade prosperity in higher wages, so they should share adversity by taking lower wages. The workers naturally retort that other economies in costs should take precedence of wage-reduction. But where no other adequate cut in costs can be made, they will not infrequently acquiesce in a temporary wage-reduction, or a short-time policy equivalent to wage-reduction. What other decision could an arbitrator reach, in adjusting a financial situation like this? The *prima facie* equity of dividing losses is backed by stern financial necessity. On the assumption that each business and each trade must always pay its way out of its own earnings, and is entitled to all that it can secure in the operations of the market, there can be no rational or equitable rule for dividing either the surplus gains or the losses between the capital and labour in a trade or business. Industrial peace,

in other words, is quite impracticable, from any standpoint of principle, so long as the legal status of a business as an absolutely self-sufficing financial unit is accepted as the basis of judicial reference. The common experience of arbitration in such trade disputes bears out this diagnosis, for though principles of equity are sometimes cited, every arbitrator recognises that his real task is one of sheer compromise, winning the acceptance of both sides to some more or less ingenious splitting of the difference.

§ 6. So far we have assumed that the problem of peace in industry lay in a satisfactory adjustment of the conflicting claims of employer and employee in the several trades or businesses. In our analysis we have shown how impracticable any sound adjustment is upon this separatist basis. The interaction of businesses and trades through the machinery of markets, or, in other words, the social determination of values, is seen to be the operative cause of this failure. Businesses are legally, financially, and practically regarded as independent, self-determinant beings, whereas in reality they are no such thing. The success or failure of a business, or a whole trade, its ability to pay high or low wages and dividends, depends far more upon what is happening in the economic system as a whole than upon any actions within its own separate control. This consideration gives a new and larger significance to the economic struggle. It is seen no longer as a number of unrelated conflicts between capital and labour in the several businesses and trades for a share of the proceeds of such undertakings, but as a general struggle *omnium contra omnes* of all the productive units in the economic system for their share of the aggregate product of this complex coöperative process. The full size and significance of this struggle are not at first apparent. But in certain middle shapes and sizes it is to an increasing extent overlapping and displacing the simpler struggle between capital and labour in particular businesses and single trades. The

fundamental fact that the operations of the whole economic system go to determine what actual payments are attainable at any particular point within that system comes home in the discovery of various other conflicts of interest beside that between capital and labour in the business unit. Trade unionists are discovering to their consternation that workers' interests, as well as capitalists', are involved in the divergence of interests between sheltered and unsheltered trades, i.e., the trades whose products command the home market, and are, either by natural conditions or legal protection, sealed against outside competition, and the trades which must sell their products abroad or at home at prices determined by world markets. The capital and labour in sheltered or protected trades are under strong incentives to cease their wasteful and inconclusive quarrels over the surpluses which their privileged positions enable them to extract, and to seek some provisionally satisfactory apportionment of these between dividends and wages. When capital and labour in such trades are both well-organised, trusts, cartels, or other combinations or agreements, cancelling the waste of cut-throat competition and favouring limitation of output and fixed profitable prices, may, by judicious concessions to employees, make a new alignment of economic forces, substituting a struggle between groups of stronger and weaker trades for the cruder conflict between capital and labour in the units of production. Even when no such pacific arrangements are made for organised division of surplus in the sheltered trades, the greater ability of organised labour in these trades to extract by collective bargaining some share of this surplus, serves to reduce their sense of solidarity with labour in the unsheltered trades, and to feed some feeling of their identity of interests with capital in the trade of whose prosperity they are joint beneficiaries. With the growing tendencies to cartelisation and rationalisation in staple industries, and the tariffs and other subsidies for

favoured trades, this division between sheltered and exposed industries plays an even greater part in determining the distribution of the aggregate product, and the unfairness of a distribution thus determined comes home even more clearly to business men and workers harassed by the swift and often catastrophic changes in the post-war economic world. For it is quite manifest that no reason or equity, but just sheer economic force, sometimes supported by political aids, is responsible for the prosperity of some trade, the adversity of others, enabling the former to control markets, raise prices, and command high profits, compelling the latter to struggle on, selling their goods at unremunerative rates, while obliged to buy the goods they need from sheltered industries at higher price levels.

Industrial peace and equitable distribution are not, therefore, attainable by arrangements of capital and labour within the several businesses or industries to share their takings on some agreed plan and to submit disputes to outside arbitration. For, in the first place, no satisfactory principle can be found for the apportionment of fluctuating gains whose existence and amount are mainly determined by outside causes; and, secondly, such consolidation of the interests of capital and labour in particular trades often signifies a new alignment of forces in the economic struggle.

§ 7. Nor is the conflict of industries confined to that between the sheltered and exposed industries. Everywhere and always an opposition between rural and town industries, agriculture and manufacture, has bred economic and political trouble, not only within the local and national areas, but to an increasing extent in the world markets. Sometimes and in some countries a growth of population, with rapidly increasing demands for food and raw materials, favours rural producers in the exchange of their product, though more often their natural advantage is offset by the superior combination of those who collect, carry, and market their prod-

uct. In most countries the weaker power of coöperation among farmers, taken in conjunction with the incalculable fluctuations of crops, keeps them more or less in permanent bondage to banks, money lenders, railroads, and distributors. Recent disturbances in the spheres of finance and politics have accentuated this conflict between country and town, and the apparent inability of farmers and other rural workers to 'hold their own' and get their share of the general increase of wealth is a source of increasing discontent. This trouble is perhaps more keen and conscious in the United States than elsewhere, because there the scale is more heavily weighted in favour of protected manufacturers, railroads, and financiers.[1] But in most countries a definite opposition between town and country is becoming a conscious factor in the economic and political situation. On the accepted lines of business autonomy there exists no remedy for the manifest injustice of a growth of national wealth absorbed almost entirely by certain favoured classes of the industrial population. Nor is this conflict between agriculture and town industry confined within the area of each country. It is in the strictest sense a world conflict. This aspect emerges even more distinctly as world markets are more fully developed for foods, raw materials, and manufactured goods. In the early years of this century price statistics clearly indicated a ratio of exchange becoming more favourable to the countries producing surpluses of essential foods and raw materials. For reasons chiefly related to the disturbing reactions of the Great War on industry, commerce, and finance, the balance has temporarily shifted against the food and raw material producing countries. But a restoration to normal conditions would seem to indicate a permanent and a progressive advantage

[1] Soviet Russia presents a special and extreme case of this antagonism exacerbated by a State Socialism in which a backward industrialism fails to satisfy the reasonable claims of a peasant population in the exchange of goods.

to those areas of the earth whose productive activities are subject to 'the law of diminishing returns', that is to say, the share of world wealth passing to the populations of food and raw material producing areas will tend constantly to increase. Unless a rigorous birth-control checks the growth of population in the world at large, or cartelisation should extend so far as to ration output over the main fields of industry, and perhaps by a lateral extension of business organisation to gain control of agriculture, mining, and other rural activities, this obvious conflict between town and country must continue to spread discord in the economic system. For there is no accepted principle for adjusting the respective claims of industries conforming to the law of diminishing returns and industries which do not, i.e., of determining the equitable price levels at which the two classes of products shall be marketed. The existing method of determining the exchange rate between these products, free competition, qualified by combination and natural scarcities, contains no security for industrial peace and equitable distribution.

Again, a closer examination of town industries will disclose other oppositions of interest, temporary or permanent, based partly on the relative importance of the goods or services these industries produce, partly upon organised limitations in the supply of the capital or labour they employ. There is at present in Britain adversity in many important industries, largely, though by no means exclusively, devoted to foreign markets, such as cotton, wool, coal, iron and steel, shipbuilding, and railroads. There is prosperity in drink, tobacco, motor cars, electrical apparatus, artificial silk, banking and insurance, drapery, and many other retail trades. The economic causes of these gains and losses lie for the most part outside the control of the several businesses in these trades, sometimes in prices of raw materials or alterations in demand, or in new processes of foreign competition affecting favourably or adversely certain businesses in these

trades, or the trades as wholes. Again, the larger margin between wholesale and retail prices in general indicates a new conflict or divergence of interests either between the manufacturing and distributive trades, or between retailers and the consuming public. The solidarity of the interests of the workers is manifestly broken by these new alignments. Real wages and conditions of labour are conspicuously better in the sheltered than the unsheltered trades, and in trades which for other reasons above cited are in a favourable position to command high prices for their goods and services. Though no close criterion exists for estimating the relative amounts of skill and effort given out in the various kinds of labour, it will generally be admitted that in some trades, e.g., building, printing, and most municipal employments, labour is a good deal better paid and conditioned than in most other occupations not less skilful and onerous in their demands upon the employees. This signifies, of course, a power in the stronger and better organised workers to reduce the real wages of weaker or worse organised workers in other trades by higher labour costs which raise the prices of the goods and services upon which wages are expended.

§ 8. This analysis of divergent interests might be carried into further detail. But enough has been said to indicate the large number and variety of group discords within the economic system, produced by a social determination of values and prices which is regulated by arrays of economic force and not by any principle of distributive justice or regard for human welfare. For just as there exists no rational rule for determining a 'fair wage', or an equitable apportionment of the gains of a prosperous business between dividends and wages, so with the other conflicts of interest which our analysis discloses. Why should a skilled farm labourer be paid less than half the wages earned by a bricklayer, or a compositor take twice or three times as much out of the social pool of wealth as a shop assistant? Why should the capi-

tal invested in banks or breweries be remunerated at a higher rate than the capital invested in cotton mills or tanneries? Or, taking a broader view of the economic situation, why should the general level of wages be so much higher in the United States than in Britain and Germany, and the level in these latter countries be so much higher than those paid for the same amount of labour-output in China or India? Quite intelligent answers can be made to such questions, but they all consist of explanations of the relative bargaining power of labour and of capital in the different industries and countries, treating the problem of distribution of wealth entirely as a problem of balance of power. The assumption everywhere is that each man, or group of men, capitalist or worker, takes out of the general pool of wealth as much or as little as the strength or weakness of his economic situation enables him to get. Though such terms as 'fair wages', 'reasonable profits', 'equitable charges', imply some sense of justice and regard for the interests of others as appertaining to the operations of the business world, they are always loose, fragmentary applications of an ethics which has no clearly intelligible meaning or authority.

§ 9. Yet, as we have recognised, most thoughtful business men are apt to hold, with their intellectual advisers, the economists, that on the whole the economic system deals 'substantial justice'. Even those conflicts of interest, those maladjustments, those manifest unfairnesses, which we have cited, are flaws or friction in the operation of a system which as a whole works harmoniously and beneficially to all concerned. Most of them are temporary disturbances, natural and inevitable in a growing organism, and are rectified in process of time by self-adjusting processes within the economic system. If capital, or labour, or both, be remunerated at a higher rate in some occupations and some countries than in others, the intelligent self-interest of investors and workers will place larger supplies of capital and labour in those

favoured occupations and countries, smaller supplies in less favoured ones. Thus a just balance will be restored. This natural adjustment, it is added, is made quicker and more accurate by the spread of education and of reliable economic information among all classes, and especially in those business quarters where the main currents of new financial and industrial power are concentrated for control. The modern organisation of finance in great world centres, acting in ever closer, quicker contacts, is in effect an establishment of that unitary regulator of the economic system which seems so desirable. The suggestion is that an economic system thus controlled by groups of powerful business experts, actuated directly by the desire of financial gain, will realise that harmony and solidarity of human interests of which the early economists had dreamed.

When doubts are expressed whether this distinctively financial object of the economic governors accords with that utilisation of productive resources most conducive to the prosperity and welfare of mankind, it is sometimes urged that experience shows in business potentates a diminishing interest in the merely money-making function and an increasing interest in the art of successful government. In other words, a sense of social service qualifies, or even displaces, that desire of gain which otherwise might mar the process of disinterested economic government. As great industry and its attendant processes of transport and commerce shed the friction, waste, and instability of the older competitive struggle, and become organised, consolidated, rationalised, and standardised by the conscious informed control of a single directing finance, with due regard to local and industrial autonomy, proper provision will be made for the human casualties involved in the readjustments of structure which every improvement of technique, and every shift of markets, involves.

Adam Smith's 'invisible hand' has become a conscious

financial providence: all real initiative is taken away from the private individual will and is exercised from great central power houses. Before endeavouring to assess the significance of this new economic government in terms of human equity and welfare, it is, however, well to realise the present limitations of its scope. Effective combination, rationalisation, and financial government, though advancing rapidly in the most developed capitalistic countries, do not even there exercise a close control over the majority of economic activities. Individual enterprise and competing businesses still cover the greater part of the economic field. Agriculture and other rural industries, many minor manufactures, some major manufactures especially in textiles and metals, many handicrafts, large sections of retail trade, even in Britain, the United States, and Germany, still preserve large elements of this old competitive character, though often their freedom is impaired by outside financial control. In the less developed countries financial penetration and organisation have as yet little grip over the major provinces of economic activity, though everywhere they are advancing.

§ 10. From these considerations it follows that a more or less definite conflict is set up between the organised and rationalised industries, with powerful financial backing, and the weaker, less organised competing businesses which still prevail numerically in most countries. Full adequate government of expert central finance, the money power, is therefore, at present, far from possessing the ability to mould the economic system by its central will so as to convert it into a harmonious working whole. But even were the dreams of 'William Clissold' to be realised by the establishment of a self-appointed aristocracy of scientific and business experts in control of the economic world, the problem of the reconcilement between economic and human values is not necessarily solved. For two discrepancies may still reveal themselves. The first is a particular form of the old objection to

oligarchies, viz., their preference of their own interests to those of the people in whose name they govern. Does experience support the presumptions either that the wielders of financial power will always recognise that their profitable interests are identical with the good of the whole business community, or that, where they perceive some divergence, they will prefer the common interest to their own? In other words, will they be impelled to use finance for the sole and express purpose of developing industry and commerce along the lines most advantageous to the community, or will instances arise where these social gains will be sacrificed to the larger and more immediate gains of financial coups profitable only to the manipulators of market values or the promoters of tempting but unsafe investment? We can only urge that the entire trend of experience is against the supposition that the determination of the good of a whole community can safely be left in the hands of a self-elected oligarchy, primarily interested to enjoy the gains and power of their position. To rest the cause of economic harmony and prosperity upon the old claim of a benevolent despotism will hardly satisfy any school of serious thinkers.

§ 11. Investigation of the actual working of the economic system thus discloses a variety of conflicts of interest for which there seems to be no satisfactory principle of settlement. In order to understand why this is so, we must, however, dig deeper into the source of mischief. In the first place, we should recognise the reality of an economic harmony in the operations of the system which maintains an effective coöperation of multitudes of people in different countries for the regular supply of goods and services to satisfy the ordinary requirements of a vast and varied public. When we contemplate the elaboration of this system of supply, and the delicate mechanisms of commerce and finance that sustain and direct its activities, we may well marvel at the success it has achieved. For certain purposes and within

certain limits it is, indeed, a remarkable testimony to the reasonableness of mankind. No other social institution has been carried to anything like its degree of complexity and reliability of working. The art of political government, even within the limits of a nation state, is crude in comparison, and beyond those limits is infantile. In fact, so impressive are the coöperative processes of the economic system in the intricacy of their order as normally to drive into the background of our consciousness those very defects and discords upon which we have just been dwelling. In order to keep the balance true it is, therefore, desirable definitely to pose the problem, how much harmony and how much discord?

The conditions of a perfect harmony have in part been indicated above in our account of the ideal of an individualistic *laissez faire* economy. If every owner of productive resources, labour, capital, land, ability, were intelligent enough to put his resources to their most productive use, and were not impeded by political, economic, or other obstacles in doing so, this conduct would at once be most gainful for him and most conducive to the gain of the community. So far as these conditions obtain, a natural harmony exists. Given intelligence, information, free mobility of persons and goods, equal access to all occupations, the good of each man will be the good of all. For many economists and social reformers this simple faith still survives, though somewhat shaken by the visible triumph of the principle of combination over that of competition in capitalist enterprise.

§ 12. But though, as we see, combination in capital and in labour has brought new conflicts into the economic world, the real element of discord lies deeper. It is not true that under the fullest freedom of competition enlightened selfishness would secure economic peace and equitable distribution. It would only do this in a community where economic conditions were static, and where the whole of the product was, therefore, absorbed in necessary costs of production. Where

the arts of production and consumption were matters of fixed custom and routine, the whole product would either be just sufficient for the physical maintenance of the population engaged in producing it, and for the replacement of the simple tools and other capital employed, or, if it exceeded this amount, would be absorbed in conventional consumption outside bare physical subsistence, or in leisure. The only qualification to be made is that, of any product in excess of the physical requirements of the growing population, some portion would be allocated to the preferential claims of chief, priest, or medicine man. But, speaking generally, when no surplus emerged, the current income would be peaceably and harmoniously distributed for the maintenance of the producers in accordance with a natural or conventional rule. In societies where economic conditions are either absolutely static, or change very slowly, this essentially harmonious state still prevails. The product is absorbed in necessary costs of continued production. When population tends freely to increase, the product goes in bare costs of maintenance: where it is checked, some slow rise in a standard of comfort may take place. But the point is that such a standard, with any conventional increments it may contain, is at any given time a necessary inducement to the giving out of productive energy. It is true that any conventional accretion to physical subsistence may be eaten away gradually by adverse economic forces, and the resistance to such loss may evoke conscious discontent. It may even lead to a loss of fertility and eventually an extinction of the population. But this is not the actual problem that confronts us. Accepting the provision that, for any given society at any given time, there exists a standard, or a number of standards of life, the maintenance of which is a necessary incentive to the output of productive energy, the economic system by a virtually automatic method makes provision for these costs in the distribution of the product. Here is a pacific harmony. If these

costs, whether of the upkeep of capital or of labour, or of the fertility of the land, were withheld, the system would soon come to a standstill. Out of the general product these costs, the expenses of maintenance, must be met, and it is to the general interest that they should be met.[1] But when the arts of industry are so improved that a growing surplus is produced beyond these costs of maintenance, there exists no natural or automatic rule for its disposal. It is not a necessary incentive to evoke the activities which produce it. If, as some argue, it is attributable exclusively to the skill, creative capacity, and industry of a few inventors and their business exploiters, it cannot for the most part be regarded as a necessary payment to these men for their services. In point of fact such attribution of the fruits of economic progress to a few individual brains is an unsound analysis of the origin of these values. But, in any case, the growth of wealth in the economic system far exceeds any remuneration needed to evoke the scientific and technical improvements from which it proceeds. In a word, we here confront a large and increasing product for the disposal of which no natural automatic provision is made in the working of the economic system. Contrasted with the 'costs' it may be regarded as an 'irrational' element in the system. It belongs nowhere by necessary law. It is the prey of the stronger: it goes to those whose natural or contrived economic forces enable them to take it. It is here that we reach the real roots of almost all the diverse forms of economic conflict. When some

[1] This statement must not, however, be taken to imply that a reliable provision always exists, even in what we term a 'static' society, for the full subsistence, or efficiency wage, of all its members. The automatic or necessary distribution only extends to bare subsistence, and shortsighted greed or some unforeseen emergency may for a time let down the economic system at some points even below that level, to the damage of the system as a whole. A sweating economy may thus be practicable for a time, lowering the vitality and productive powers of the society as a whole. Continued upon any considerable scale, this would represent not a static but a retrograde economy.

portion of this surplus emerges in the higher prices, profits, and income of a business or a trade, or of the economic system as a whole in periods of great activity or progress, a struggle for its possession takes place, between capital and labour, trade and trade, producer and consumer. Schemes of conciliation, arbitration, or proportionate division of these spoils cannot achieve a really satisfactory settlement of such disputes. For neither of the parties directly committed to such struggles can be deemed to have any equitable claim to a surplus whose existence is not due to any effort or skill in either party, but to a natural, fortuitous, or contrived scarcity, or abundance of supply, which has enabled larger gains to be obtained.

§ 13. This distinction between costs and surplus is, of course, no novel one. It emerged with the formation of the Political Economy of the eighteenth century, and in various shapes has persisted as a part of economic theory. It was first incorporated in the doctrine of the sole productivity of nature, the *net produit* of the physiocratic doctrine. It took root in our classical political economy in the Smith-Ricardian rents of land, differential and specific.[1] But long before the gathering of any coherent body of economic doctrine certain elements of excessive profits from public concessions or trading monopolies gave substance to this notion of surplus earnings. Monopoly or scarcity prices, due to manipulation of markets, were common grievances in medieval society. The modern economists, alike upon the Continent and in Britain, were reformists in regard to all such monopolies and privileges. They were 'abuses' in the *laissez faire* competitive order, to be got rid of as soon as practicable. But rents, based on the niggardliness and inequalities of nature, re-

[1] By specific rent is signified the positive rent yielded by the worst, or marginal, land in use for some particular purpose, e.g., the worst hopland in Kent, or the worst building site in a particular town. This is Adam Smith's scarcity rent, not acknowledged in Ricardo's theory, but restored by later economists.

mained a permanent surplus, unearned by those who owned the land, and a suitable source of public revenue. The fixity of land and the visible appreciable growth of values and incomes from its ownership, together with the political and social prestige and power attached to landlordism, combined to give dramatic prominence to this feature of the economic system. Industrial and commercial capitalism found in landlordism a convenient scapegoat for all economic sins, and successful business men were satisfied that all their profits, however large, were the earnings of their industry and enterprise, economically and morally distinct from rents which flowed in "while men slept". In the acrimonious struggle between industrialists and landowners in England during the mid-nineteenth century political economists displayed as little consciousness as did industrials of any unearned, unneeded 'surplus' in the almost fabulous profits of Lancashire factories. Such fortunes appeared as the legitimate prizes and inducements to thrift and enterprise, or else as merely temporary gains of prosperous times to be offset by losses during periods of depression and adversity.

This complacent view of capitalism was confirmed among sober thinkers by the undiscriminating violence of the new proletarian economics of which Marx was high prophet. Here the fact of central, almost sole, importance was the enforced sale of labour-power on terms enabling the capitalist-employer to make a surplus gain from each purchase. Surplus here acquired a new meaning, which threw into the shade all earlier ones. It was the value represented by the difference between the payment of subsistence wages to the worker and the sum obtained by selling in the market the product of his labour. Or expressed in terms of work-time, the worker in the first few hours of his working-day produced an output equivalent in selling price to the wages paid him for a full day's work. His output, or produce, during all the subsequent hours constituted a 'surplus' which his

employer appropriated. This iron law of wages, with slight modifications, has continued to be the representative explanation of the economic tyranny and injustice of 'the capitalist system' and to the general body of socialists and trade-unionists this analysis virtually confines the notion of 'surplus' to the profits which capitalist-employers 'make out of labour.'

Though not denying the part played by an inert landlordism in making unearned gains, the active 'profiteering' in the world of industry and commerce figures so dramatically among class-conscious proletarians as to dwarf the element of rent and to identify surplus with profits made by underpaying labour. In scientific socialism, still more in the popular rendering of socialist doctrine, the crude presentation of a theory which imputes to each capitalist-employer the power to take and keep so large a share of labour's product in face of his competition with other capitalist-employers, and which ignores all other pulls and squeezes in the economic system, has actually served to weaken the force of a more discriminative criticism of that system. The exaggerations of the Marxian attack, by failing to distinguish between the payments economically necessary under capitalism to the providers of capital and organisation and payments in excess of these amounts, have served to obscure the vital distinction between costs and surplus. Nor can it be said that this defect is remedied by the introduction by Marshall and his school of the faltering term 'quasi rent' to indicate the extra payments taken by those who find themselves in possession of some factor of production or some commodity endowed with a temporary scarcity value. If there is a house-shortage, as in many cities after the war, the owners of existing houses or house-leases are in a position to take advantage of this shortage (when the law does not interfere) and charge selling prices or rents higher than those that will prevail when sufficient capital and labour have been drawn

into the building industry to restore a normal balance of supply and demand. So also the owners of the existing plant in any industry, for whose product some large new market quickly opens out, are able for a time to earn profits far above the level they can maintain when new firms set up with new plants and enter into competition in their market.

There is no reason for appending the qualifying term 'quasi' to these 'rents', if the term rent indeed be chosen to describe all differential and specific surpluses. The fact that in many cases these extra prices are due to adventitious circumstances, are of no long duration, and are direct causes for their own disappearance by stimulating an increase of supply, is no reason for refusing to recognise these extra prices as true economic surpluses. Some of these shortages are, indeed, chance products and short-lived. But others are not. In high-tariff countries there are well-organised industries able to secure for their invested capital a normal rate of profit far in excess of the free market rate. Even in Great Britain there are industries, such as banking, brewing, and tobacco, where competition is so attenuated that surplus profits, though fluctuating in amount, are a normal feature of the industry. Nor are these surpluses confined to the ownership of certain kinds of land and capital. Artists, actors, writers, singers, inventors, lawyers, surgeons, and other owners of valuable personal qualities or reputations, are often able to charge prices for their services far in excess of what they could obtain, and would be willing to accept, under freely competitive conditions. The fee charged by a surgeon of high reputation in London or New York for a major operation would probably be four times as large as would be paid to a surgeon of equal skill in Stockholm or Zürich. For similar reasons great singers and actors can obtain higher salaries in New York, Buenos Ayres, and Rio, than in any European city. While nearly all these personal rents of ability are short-timed surpluses, so long as

they exist they are as true surpluses as are the rents of city sites, which, though generally more durable in size and growth, are also liable to fluctuations and depressions with movements of population and of local trades. Finally, as we have already noted, not only the capital but the labour employed in certain trades may secure wage rates which contain an element of surplus. This is the case in sheltered trades where the labour market is well-organised and protected against free access from lower paid workers. It may even be said that the whole condition of skilled organised labour in America carries in its wage-rates what from the standpoint of world-economy is an element of surplus.

§ 14. The fact that many of these surpluses are difficult to trace and measure does not prevent them from being a disturbing factor in the economic system. Those economists who refuse to extend their idea of rent outside the Ricardian line sometimes choose to regard all other excess payments either as negligible by reason of their evanescence, or as serviceable inducements to special outputs of energy or enterprise, i.e., as true costs. But neither of these positions can be maintained. Such durable surpluses as we have cited are assuredly not negligible forms of waste and conflict, while, although prizes may reasonably be taken to act as incentives to certain types of productive effort, it cannot for a moment be argued that the amounts and duration of the excess-profits that emerge in industry are determined in amount by any economy of 'motives'. It is then of the first importance to realise the common origin and nature of these surpluses, how it is that all of them usually represent the use of some natural, contrived, or fortuitous 'scarcity' [1] enabling the owners of some factor of production to extract a higher price than

[1] Even where abundance, not scarcity, appears to be the immediate cause of surplus gain, as in the case of a good harvest, or a rich oil field, that abundance, in order to be a source of surplus gain, must be restricted in extent and ownership.

is necessary to maintain or evoke a sufficient supply of the factor in question.

The recognition of the nature of surplus and its proper treatment is vital to any successful attempt to secure an equitable economy. I spoke of it as constituting the 'irrational' element in the economic system. But here some misunderstanding is likely to arise. There is a sense in which the economic surplus is entirely rational. The actual income of wealth it represents proceeds from those improvements in the arts of industry which human reason achieves, and which give rise to more productivity than is needed to maintain the productive agents. Thus regarded, this economic surplus is the sole source and substance of economic progress. Its irrationality lies in the defective provision for its serviceable distribution. That distribution, as we perceive, operates by a process of economic pulls, representing the proportionate strength of the claimants, and nowise contributes to the production of the surplus, or the capacity to make good use of it. In the end, the organisation of these economic pulls often involves a limitation of output or other restriction of economic services, which certainly reduces the aggregate amount of surplus, in order to strengthen the bargaining power of the organiser of a deal.

The economic system, as administered at present, thus makes no adequate provision for the rational and equitable use of surplus wealth. And yet its true functions are clearly discernible. It has, indeed, three distinguishable though related functions. The first is to supply the saving fund for the enlargement and improvement of the productive fabric of capital and labour. A portion of the product which remains after all necessary costs of maintenance are met should manifestly pass in due proportions to the growth and betterment of the productive resources. The claims of a larger and a more efficient body of workers are here placed upon the same footing with the need for larger and better

supplies of plant, materials, and other capital requirements. The 'saving' represented in improved hygiene and education of the workers is strictly inseparable from the value of the new capital put into industry, for the effective utilisation of new and better technical equipment largely depends upon the larger supply of more efficient labour.

The second function of a surplus overlaps the first and yet demands separate attention. Economic efficiency is only a part and not the chief part of a sound progressive personality. Nor does personal progress hinge mainly upon sound economic conditions of life. But from the sphere of economic activities contributions can be made to personality which are not expressed primarily, if at all, in increased or improved economic efficiency. A portion of the economic surplus may, therefore, be withdrawn from the economic field, in order to enrich the organic life of the personality as a whole. The cancelment of some surplus in the cause of leisure, the shortening of the working-day, is an example of this use. There are many others. For even those uses of 'saving' to improve the conditions of hygiene and education, though, as we see, contributory to economic efficiency, do not find their sole or chief utility in this field. Better health and higher intelligence will obviously find their chief gain in the wider fields of human welfare. Indeed, no better proof could be given of the need of a conscious control of economic processes, in the interests of human welfare conceived as an organic whole, than this claim to override the narrower immediate demands upon the surplus for economic ends, without due regard to the larger human ends which it may serve.

Finally, it is convenient to regard the complete economic surplus as the fund on which the State and other forms of the organised community may draw for the economic maintenance and improvement of the non-remunerative services that serve the common life. Whether we hold that community is a human value in itself, as distinct from personality, or is

only a means for the enrichment of personality, we cannot fail to recognise that, with the growth of modern civilisation, there is a growing tendency for organised communities to claim for the support of their activities an increasing amount of revenue, and this they seek to draw, as far as practicable, from funds which by our analysis would rank as surplus. When we discuss the moral rights of the State in relation to the economic system, we shall see how much hinges on the discovery of a taxing system which interferes as little as possible with costs, and applies itself with skill to methods of ensuring that the true incidence of all taxation is on surpluses.

§ 15. One possible misconception remains to be cleared away. It may be urged that the discords and the waste in the working of the economic system, to which so much prominence is given in our analysis, are not inherent in that system but are due chiefly, if not entirely, to the ignorance, folly, or perversity of certain sections of the community who seek to interfere with the operations of economic laws. There is, so runs the argument, a real harmony extending even to the utilisation of our 'surplus'. For the three legitimate services to which the surplus can be put are in fact provided out of it. The profits of successful industries, rents, and other unearned elements in large incomes furnish the bulk of the savings that enlarge and improve the material fabric of capitalism. Practically the whole of the fund of new capital is drawn from 'surplus'. So, likewise, the higher standards of life, the material condition of a higher personality, the second of our uses, are actually attained for the majority of the people of civilised countries from this same source. Finally, the governments of every progressive community are taking by taxation a larger share of surplus wealth and income for the public services. Admitting, then, that, out of the general product the costs of maintenance of capital and labour are provided by a regular, necessary routine, while the surpluses, however gotten in the first instance, find their way

into serviceable channels, may we not revert to the belief that economic laws, conformable to a nature that includes humanity, direct the operations of the economic system in accord with the just requirements of the community? Others, while regretting the existing inequality in the distribution of wealth, seem to regard it as a necessity in the working of our economic system, and fortify themselves by Pareto curves which claim to prove that no substantial changes take place, or can take place, in the distribution of income among the different income levels.

These arguments all hark back to the comfortable doctrine of a natural harmony, in the light of which all alleged conflicts and discontents are attributable to human folly and wickedness. In reasserting the validity and importance of our distinction between the rational apportionment of costs and the irrational apportionment of surplus, we first take issue with the contention that the existing distribution makes a sound social provision for the application of surplus through the prescribed channels. It is incontestable that the economic surpluses, in their emergence as income, measure not productive services rendered by their recipients, but strength of bargaining due to natural, contrived, or fortuitous scarcity. Now these methods of acquisition necessarily affect their use. In the first place, there is no economic influence directing the flows of these surpluses into the channels which we recognise as socially serviceable. Large parts of these surpluses notoriously are expended by their recipients in luxurious and wasteful extravagance, directly injurious to the personality of their owners and their immediate entourage, and indirectly by example to the whole society. Again, of the surplus which finds its way through saving into capital investments there are no sufficient guarantees in the processes of such saving for a socially advantageous distribution of new capital among the various channels of investment. Nor, again, is there any regulation of the right proportion between

the total saving fund and the other two serviceable uses of a surplus, a rise in the general standard of living, and an enrichment of the economic life of the community. The actual application of the surplus is governed by the individual and fluctuating tastes, caprices, and valuations of the recipients, qualified by the skills and cunnings of financial exploiters, and the fears, greeds, and daring of statesmen in charge of the public finances.

The forcible, inequitable, irrational origins of those surpluses thus exercise a damaging reaction on the uses to which they are put. As elements of discord they wield a two-fold influence. In origin, as they emerge in rents, profiteering, and other price extortions, they evoke hostility and struggle between capital and labour, landlord and tenant, producer and consumer, and between the various trades and labour groupings in their dealings with one another. Again, since, as we see, their application to the several economic purposes, extravagant expenditure, capitalisation, standards of personality and communal life, are not governed by any rule of reason, they breed discord and contention between these several claimants, and great economic disorder and waste ensue. Nor is the trouble confined in its effects to the partition of the surplus. It is liable to react injuriously on the economy of costs. The absence of any rational security for the apportionment of surplus will be seen to be a chief cause in producing those trade fluctuations which bring periods of unemployment and under-employment to large masses of productive resources thereby deprived of their wages of subsistence. Maldistribution of the surplus in these various ways lies at the root of all the wastes, discontents, and conflicts, which impair the operations of the economic system. The distinctively moral defects which the surplus expresses cannot, however, be diagnosed effectively without a closer analysis of the nature of that bargaining process by which prices alike of factors of production and of commodities are determined.

# CHAPTER III

## THE ETHICS OF BARGAINING

§ 1. The coöperative unity of the economic system is established, maintained, and regulated by an elaborate mechanism of markets. In these various markets, where sales of goods and services take place, the product of this economic system, the body of wealth it creates, is distributed among those who have claims upon it. These claims are adjusted in detail by processes of bargaining in which buyers and sellers of goods and services try each to give as little and to get as much as they can. Custom, or legal regulation, or long-time contracts, may displace bargaining as a continuous process in certain kinds of sale, but these are only temporary checks and brakes upon the regular running of the market mechanism.

Remembering that what takes place in every modern market is an exchange of specific wealth by means of a pecuniary transaction, let us examine the actual process by which a market price is reached. But first let us take account of certain acts of sale which lie outside the ordinary area of bargaining. A fisherman, with one fish in his basket, who met a shipwrecked sailor, starving, with a hundred dollars in his pocket, could, if he knew the sailor's circumstances, get the whole hundred dollars as the price of his fish. If, on the other hand, there were two fishermen, each with a fish, and no other chance of a customer before the fish went bad, the sailor could, by making the fishermen bid, get his fish for a penny, though the mean expense of catching a fish might be a quarter. Here we have monopoly in the determination of

a price, price-fixing with the maximum of economic force and inequality of distribution. Joseph's famous cornering of the wheat supply of Egypt, by means of which the whole population are reduced to chattel slavery, is the classical example of monopoly. Private ownership of land is everywhere endowed with some element or degree of this monopoly power, great or small according to the opportunity an occupant may have of moving on to some other owner's land without incurring losses. This same power of price-fixing outside the true conditions of a market is vested in a manufacturing trust or cartel, a transport combine, or the sole owner or merchant of some raw material or patent. If the article or service thus controlled were in the strict sense a necessity of life to any considerable body of purchasers, their price-fixing power would be identical with that of our fisherman. For all that a man hath will he give for his life. But the existence of a power so unlimited is very rare. For even where the monopoly of a supply is absolute, the article controlled is rarely indispensable; recourse is open to some inferior alternative, or its consumption may be so reduced that 'the elasticity of demand' is an effective check upon the price-dictation of the monopolist. The likelihood of stimulating some new independent source of supply, a resentful public opinion, the possibility of legal intervention, are other obvious limitations to monopoly. But when all such allowances are made, it is evident that, whenever the supply of any commodity or service is in single hands, there is a power to fix selling prices so as to extort a surplus.

§ 2.[1] But does this power altogether disappear when bargaining takes place in a free market? *A* has a horse which he will sell for \$150 or as much more as he can get; *a* and *b* are two men willing to buy a horse, and, having no other horse in view, *a* would go as high as \$180, *b* as high as \$200.

[1] Part of this section is taken (with certain alterations) from Chapter IX of the author's *The Industrial System*.

If all the parties knew the circumstances, it is evident that bidding between *a* and *b* will go on until the price is driven up to $180, and at any point above that sum but less than $200, the horse will be knocked down to *b*. If we assume an equal urgency in *A* to sell and *b* to buy, the actual price within the limits of $180 and $200 is indeterminate. But wherever it is fixed, the gain of the transaction is unequally distributed.

Now let us set the market differently by putting in a second seller with a different minimum price.

| | | |
|---|---|---|
| *A*, | a seller with a minimum price of | $150 |
| *B*, | " " " " " " " | $170 |
| *a*, | a buyer with a maximum price of | $180 |
| *b*, | " " " " " " " | $170 |

*B*, by refusing to come into the market at less than $170, makes that the minimum market price, for *a* and *b* will run the price up to that point at once in competing to buy *A*'s horse. *a*, dropping out of the bidding at $180, makes that the maximum market price, for above that point *b* is confronted by two willing sellers and can fix his terms. Between $170 and $180 there are two willing sellers and two willing buyers: all would take part in an act of sale at any point between $170 and $180 indifferently. No bargaining can take place between these two points. If we isolate the market, and assume full knowledge on both sides, competition or higgling cannot fix a price.

Now let us add a third party to each side with a separate reserve price. The market will then be thus set out:

| | | |
|---|---|---|
| *A*, | seller with minimum price | $150 |
| *B*, | " " " " | $170 |
| *C*, | " " " " | $175 |
| *a*, | buyer with maximum price | $180 |
| *b*, | " " " " | $200 |
| *c*, | " " " " | $210 |

If the bidding began at $150, there is only one willing seller and three willing buyers; the latter will raise the price by their bidding, and at $170 another seller, *B*, enters the market. But, as there will still be three buyers to two sellers, the price will rise higher until at $175 *C* enters in, and there are three sellers and three buyers. One hundred and seventy-five dollars is thus fixed as the minimum market price, for all are willing to buy and to sell at that price. Similarly, it can be shown that $180 is the maximum price, for at any point above there are more willing sellers than buyers, and the odd seller, afraid of being left out, will keep the price from rising above $180. The market price must stand between $175 and $180, but may stand anywhere between, and there is nothing in the process of bargaining to determine where.

In either of these two markets the price-point between the minimum and maximum must be reached by extra-economic means: the parties must 'toss up'. This is on the assumption that all the parties have full knowledge of the respective valuation of all the buyers and sellers. In point of fact bluff, based on ignorance, and not chance, would usually fix the price-point. It is evident that we may add a fourth, a fifth, or any limited number of competitors to the supply or demand side of this market without affecting, save in degree, this method of determining price. The larger the number of competing buyers and sellers, or the nearer their respective valuations to one another, the closer will be the upper and lower price limits within which the price-point, the actual market price, should fall. But unless there is an infinite number of units of supply and units of demand, or unless the valuations of the determinant buyers and sellers should happen to coincide, the process of bargaining by itself could never reach a price-point. Now, in the application of economic theory to economic price, the recognition of this fact is of great importance. Let us formulate it thus:

'So long as the number of willing buyers is equal to the number of willing sellers no movement of price can occur, and within the limits of this equality of supply and demand no price-point can be reached'.

'Increase the number of buyers and sellers, approximate their expense of production and their purchasing power, reduce the size of the units of supply, the competition becomes closer, and the upper and the lower margins nearer together. But except in an ideal market they do not touch. There remains an unearned gain distributed by chance or force.'

And yet in practice we constantly see market prices reached and changed by means of bargaining.

The theory of the determination of a market price, as commonly set out in economic textbooks, starts with an assumption of an infinite divisibility of supply. It is evident that, if instead of our market for live horses, we put a market for dead horse-flesh selling by the pound, the bargaining, even in so small a market as we provided, would bring the upper and lower margins of price so close together that the difference might be negligible, and so what was to all intents a price-point might be got by mere bargaining.

In highly organised free markets, where goods are closely graded and minutely divisible in units of supply, this irrational element in price-fixing may virtually disappear, and price-points be attained by bargaining between a number of sellers and a number of buyers.

But, as our examples indicate, the attainment of a market price by such bargaining by no means indicates that the distribution of the advantages of the sale at such a price is equal, either as between the body of sellers and the body of buyers, or for the separate sellers and buyers. In such 'free' markets price-fluctuations constantly occur, which shift the balance of advantage to one side or other, a rise of prices favouring the sellers, a fall the buyers, due in either case not to the merits of the two parties, but to circum-

stances affecting the respective volumes and pressures of supply and demand over which the parties to this market have little control. Again, among the sellers on the one hand, and the buyers on the other, the price reached will represent, as we see, widely different rates of gain. Only in the exceptional cases where expenses of production are the same for all the units of supply, and where the demand represents consumers of identical requirements and means of purchase, can it be said that such bargaining achieves full equality of distribution of the gain.

§ 3. Another way of envisaging the process is to consider a market in relation to the real costs and utilities represented in the different units of supply. By real costs we signify, either, the disagreeability of giving out productive effort under the actual conditions of the processes employed, the enforced attendance in a noisy workplace for fixed times for the performance of some monotonous, uninteresting, and tiring task, or the actual human damage to mind or body involved in the performance of such work. By real utility we signify, either the conscious enjoyment obtained by the consumption of the goods, if they are consumers' goods, or the actual human gain from their consumption.[1] Whether we reckon costs and utilities in terms of current feelings or of human values, the argument here runs on similar lines. Every unit of the supply in a market has the same value or price attached to it, with the implication that it carries the same cost and utility, whereas in fact a different cost and a different utility attaches to each unit. Since the last increment of a supply may be deemed to be produced by the last hour's work, its real cost, in human valuation at any rate, if not in current disagreeability, will be greater than that of any of the earlier increments, while the real utility

[1] Where productive goods are concerned, their real utility must be accredited to the consumptive goods for which productive goods are either materials or instruments.

of its consumption, similarly estimated, will be smaller. Though the time-curves of a working day will not show a quite regular fall in cost and rise in utility from start to finish,[1] the units of supply contributed by the earlier hours' work will be much lighter in real costs (on either reckoning) than the contribution of the later hours, while these earlier units of supply, going to meet the more urgent needs of consumers, will carry a higher real utility.

This, it may be urged, is the operation of a natural economy which carries no element of injustice or of inhumanity. If a worker gets the same wage for his last hour's work as for his first, his last hour's pay must be deemed to carry a utility of consumptive satisfaction at least enough to compensate the disutility of the last hour's work, and each earlier hour's pay will carry an enlarging surplus of utility. So, like every other marketeer, buying or selling his stock of goods at a single market price, he gets a differential gain from each unit of his buying or selling, except the 'marginal' unit.

§ 4. Now how far, and under what circumstances, is this analysis valid? It certainly holds of a Crusoe economy. Crusoe would not spend an hour's more work on any job than its estimated yield in utility, as compared with the utility or enjoyment which the allotment of this hour to another job, or to leisure, would secure. Every successive hour's work for him would yield a different surplus of utility over cost, whether reckoned in current satisfaction or in human utility. The same economy would obviously hold for a communist society, assuming it were honestly and intelligently run. The community would be simply an enlarged Crusoe, laying out the productive energies of its members as Crusoe would lay out his several skills and hours. A per-

[1] According to modern psychological tests, the time-curve of conscious fatigue and of risk in most routine occupations has fluctuations. The first hour's work is not felt as the easiest, nor the last hour's work always as most difficult and tiring. The true human costs, however, will not follow these fluctuations.

fect individualism or anarchism on the lines of William Morris's *'News from Nowhere'*, or even according to the less idealistic conditions envisaged by some *laissez faire* economists, would conform to the same pattern, provided certain conditions of liberty and equality prevailed. If capital and labour had perfect fluidity and divisibility and could apply their productive services in contracts of sale on terms of equality with all possible vendors, and if all natural resources were equally available for all, an equitable distribution of real costs and utilities would seem to emerge.[1]

But in the actual economic system none of these essential conditions is found. The labour or capital affixed to certain occupations and places is not free to transfer itself to others, save at a heavy loss. New labour and capital are only free within certain limits to enter the productive processes. Most new labour is restricted in its choice and flow by lack of opportunities for training and information, and by ties of family and local attachments and other factors of human personality. But there are two conditions of labour which completely vitiate the assumptions of the perfect individualism. One is the fact that most workers are usually destitute of any other means of livelihood for themselves and their families than the continuous sale of their perishable labour-power. Their labour sale is always conducted under the disabilities of a forced sale. Except for repellent, precarious, and inadequate aids from public and private charity, the worker must sell his labour-power continuously to an employer who is not under a similarly urgent compulsion to buy it. It is true that invested capital loses if it does not continuously purchase labour for its business uses. But the balance of injury upon the two sides of the labour sale is very unequal. The worker's life depends upon selling his labour-power, the

[1] This judgment, however, rests on the assumption that equity is satisfied by payment according to productivity, not according to effort or needs.

capitalist-employer's life does not. The perishability of labour-power, therefore, must be a normally injurious factor in the labour-contract. No public or private provisions for unemployment, no collective bargaining, and no competition among employers can adequately offset this normal weighting of the labour-bargain in favour of the buyer.

The other disabling element in the sale of labour-power is that it is not detachable in the conditions of its delivery from other human factors of personality. In this particular sale, as in no other, vital non-economic considerations enter. Labour is treated as a commodity, the sale of which shall conform to the laws of a market. But the whole body and soul of the worker are implicated in the conditions of the delivery of 'the goods'. When labour is bought, the continuous presence of the labourer at the workplace is involved; and, for the human costs of this continuous presence, with its physical and moral risks and dangers, the labour contract makes no reliable provision. It is true that in Britain, and in some other countries, a legal responsibility for compensation is imposed upon employers in respect of certain injuries of health or limbs directly traceable to working conditions. It is, however, evident that many occupations involve heavy normal risks to health, and even life, for which no monetary compensation is made, and for which no monetary compensation would be adequate. Indeed, most of these risks do not figure in the wage-contract. There is no ground for holding that the risks of phthisis from factory dust, or potter's jaw, or chronic rheumatism from exposure to wet, cause higher wages to be paid in employments subject to these conditions. Some occupations notoriously brutalize the personality of the worker, by sheer physical exhaustion, or by a mechanical monotony of routine that evokes recourse to the lowest and most degrading forms of sensational stimulants. Others, as for instance many of those engaged in the production of luxurious goods and personal services, carry heavy moral

costs in the sense of their essential disutility or futility. Such damages, physical, intellectual, and moral, are not paid for in the price of the labour that involves them: they are 'thrown in'. Some of these occupations, indeed, are so noxious to self-respect in 'free' communities that they either tend to disappear, or to be foisted upon more servile newcomers from outside. Such is in general the situation of domestic service in America. But though the growing scarcity of such labour, in societies where personality acquires a conscious value, affects the labour contract in raising wages, these higher rates of pay cannot be regarded as a true measure of the human costs which they may reasonably be supposed to compensate.

These considerations affecting the wage-bargain all run back to the fact that in such bargains non-economic factors are involved which cannot properly be taken into account in the terms of the bargain. It is, perhaps, the heaviest ethical indictment of the economic system that in its operation it is bound to assume (a false assumption) that man is a purely economic being, and to ignore all or nearly all of the other human processes and values that are involved in the economic life.

§ 5. But let us now return to the starting point of our analysis, the case of the bargain of a starving man with a single vendor of food. We saw that here the maximum advantage lay with the seller, by reason of the vital urgency of the needs of the buyer. Now the other situations we have envisaged are all modifications of this extremity. The ultimate weakness of the wage-earner, bargaining either singly or in groups, is that in the last resort his food supply would disappear before that of his employer. Wherever there is inequality of monetary resources in the parties to a bargain, some measure of this economic force weights the scales. A poor man cannot bargain with a rich man on equal terms, either for the sale of his labour or for the purchase of the commodities

he buys with his wages. The town worker pays higher rent for his housing than does the man of means. His food and fuel, necessarily bought in small quantities, are dearer when quality is taken account of. The worker, therefore, is a weak bargainer both as producer and as consumer. So, also, the small business man, as farmer, manufacturer, or trader, in his relation to wealthier businesses from which he buys or to which he sells. His narrow resources and limited credit, apart from their effect in impairing his technique and so raising his overhead costs per unit of output, disable him in his marketing at both ends, in buying his materials, plant, buildings, etc., and in selling to businesses whose superior finances make it less urgent for them to buy from him than for him to sell to them. Apart from this general situation, the small business is commonly either 'tied', or restricted in its area of purchase or of sale. The farmer must sell to some big owner of elevators or stockyards, or some ring of dealers, while in buying his machinery, fertilizers, etc., he is in the hands of the local bank or the agent of some big combine. The fisherman, the fruit-grower, or dairyman, is in the same situation, aggravated by the perishability of his goods. Everywhere the large strong business is better able to combine with other strong businesses for advantageous terms in buying and in selling. Whenever such big businesses or combines deem it expedient, they are able to buy out small competitors upon their own terms, using their greater finances to undersell the latter in the market.

§ 6. These familiar instances should suffice to illustrate the general rule that, even where competition survives in the business world, it is seldom 'free', and does not work out equally, or equitably, in any class of bargaining between the financially strong and well-organized bargainer and the financially weak or worse-organized. Save in the rare case when both parties are equally strong in finance, knowledge, and organization, business bargains distribute the gain un-

equally and proportionately to an economic force which, in its final issue, means the power to 'starve the other out'.

The *prima facie* equity of free competition and *laissez faire* as a security for the fair apportionment of wealth is thus dismissed upon the ground that there is no freedom of competition, or of bargain, between financial unequals, and that in almost every actual instance bargaining takes place between unequals. It is sometimes maintained that, though the gain in any particular bargain is liable to be unequally distributed, the advantage in one bargain will be compensated by the disadvantage in another, and that in the long run the bargaining process works out with substantial justice. Nobody is always buying necessaries of life from monopolists. Even the poor man in most of his dealings as buyer is able to buy at fair competitive prices, and though rings of dealers may fix prices for his food and fuel, they only exercise a limited power of exploitation in view of 'the elasticity of demand' and 'the law of substitution'. But such considerations are only extenuating circumstances. Poverty is at a normal disadvantage in bargaining with wealth. Not only a monopoly, but any natural or contrived scarcity, endows its owner with a normal advantage in all these dealings.

It is in these processes of unequal bargaining at innumerable points in the economic system that the bits of unearned excessive gains emerge which, in our earlier and more general survey, form the rents, high dividends, profits, fees, and salaries, that we distinguish as 'surplus' in contradistinction from the necessary, useful payments called 'costs'. The acknowledged difficulty of measuring these surpluses in all cases, or of distinguishing them from legitimate rewards or incentives of initiative, enterprise, and personal efficiency, does not impair either the theoretical validity of the distinction, or its practical importance in all thoughtful proposals for making the economic system more equitable and more productive of human values. Only by close analysis ap-

plied to this distinction between costs and surplus can we safely steer between the moral and economic dangers of checking or stifling those factors of individual character and capacity in the business world whose free expressions are essential alike to economic progress and to moral personality, on the one hand, and the waste, unfairness, and inhumanity which are the sources of our present discontents, on the other hand.

In conclusion there is one aspect of the bargaining process which has always evoked the criticisms of moralists who seek to establish in all human institutions the education of a truly social personality, and of a sound community in which such social personalities may live and thrive. By their very nature the bargaining processes inhibit the consideration of the good of others, and concentrate the mind and will of each party upon the bargaining for his own immediate and material gains. Each for his own selfish ends consciously mobilises all his economic forces. Within the legal limits of the struggle he is out to get as much and give as little as he can. Though he may have no clear consciousness of any moral degradation in such conduct, and may even justify it as a process fraught with social gain in some long run, this constant drive of selfish interest involves a hardening of the moral arteries. Equity and kindness, considerateness, must be the constant food of a fine personality, and an economic system which not merely fails to supply such food, but feeds and stimulates the purely selfish instincts and desires, is hostile to human character and progress. The mechanism of markets works by a conflict of forces: it is not an equitable instrument of coöperation for the economic welfare of the community.

# PART IV

# ORGANIC REFORMS OF THE ECONOMIC SYSTEM

# CHAPTER I

## THE PRINCIPLE OF EQUITABLE DISTRIBUTION

§ 1. Our general survey of the economic system from the standpoint of ethics discloses great defects, alike in the conditions under which wealth is produced and distributed, and in the processes of economic valuation. So far as free competition and free bargaining prevail, their bracing effects on individual industry, enterprise, and other factors of economic efficiency are accompanied by a stimulation of the selfish and combative instincts that is hostile to the education of a social personality and a strong community. Nor does combination, displacing competition among the members of particular trades, improve the moral situation. As we have shown, it serves to sharpen conflicts between stronger and weaker trades or groups of trades, and enhances the inequality of bargaining between producer and consumer by endowing trade combinations with increased powers to dictate prices. The entire process of bargaining, by which the apportionment of work and of its product is determined, is seen to consist in a struggle where economic strength, not justice or humanity, is the decisive factor. The fiction of the so-called 'natural harmony', once supposed to reconcile the opposed interests, has been exposed, and, though we have recognised some community of interest in the working of the economic system as a whole, this economic good is much diminished by waste and friction owing to the lack of any common purpose. The waste is much larger than it appears,

for much of it consists in setting productive energies and resources to produce wealth, which either in its intrinsic nature is 'illth', or, from the inequality of its distribution, shrivels in the utility or enjoyment that it furnishes.

All through the ages idealistic reformers have bewailed these faults, and have presented schemes of economic society in which they should be remedied. These utopias have always been wrecked upon the rocks of a human nature, envisaged as essentially immutable, or, at any rate, unadaptable to utopian requirements. The validity of modern socialistic and communistic principles and schemes turns upon the same critical consideration, the nature and amount of the adaptability of human nature.

§ 2. From the standpoint of the abstractly desirable, and one might add the abstractly reasonable, complete schemes of economic socialism, or communism, are morally attractive. Here is a representative definition of socialism from an authoritative economic source.

"Socialism requires that the processes of production and distribution should be regulated, not by competition with self-interest for its moving principle, but by society as a whole, for the good of society." [1]

What could be more desirable then than that the economic system should be organised consciously for the good of its members as a whole? A single social will and purpose, to displace the tangle of conflicting private wills and purposes which at present govern industry, so far as it is governed! But what are the necessary implications of such a conscious social organization? Evidently certain present personal liberties must be curtailed. No man will be free to choose his own occupation and economic status, or to take out of the pool of wealth more than his share as fixed by the economic government. By most men, no doubt, these interferences with personal liberty will not be regarded as substantial.

[1] Palgrave, *Dictionary of Political Economy*, 'Socialism'.

Indeed, it might be contended that their real liberties would be enhanced. For whereas now they have meagre opportunities of ascertaining what they can best do, it would be to the interest of organized society to discover it, and so to enable them to fill their 'proper' place. And as for the liberty to fix their own pay, few possess this power in any appreciable degree. They would stand rather to gain than to lose by a transfer of material and moral compulsion from a private capitalism to an organized society in which all members might have an equal voice. No doubt a good deal would depend upon how this organized economic community was governed. The economic government need not be closely identified with the political state. The trend of most modern socialistic aspiration is against State socialism, in the sense of a central political bureaucracy. But a single authority there must be, with a sufficiency of moral or material compulsion at its command. It must have some powers derived from the political state, and as we shall readily recognise, the financial requirements of the State would preclude complete economic autonomy.

Regarded from the ethical standpoint, the critical test of any large conscious socialist experiment is the adequacy of moral compulsion, that is to say, of the motives or incentives operating on the members of the economic society. If it be possible to get all, or nearly all, the members of a society to do their proper share in productive work, and to take their proper share from the general pool, because this way appeals to them as fair and agreeable, then the conditions, not merely of socialism, but of full communism, would exist. We should then have the Kingdom of Heaven upon earth! The horror which attaches to the term and concept 'communism' in most well-ordered minds, is an interesting psychological study. In part, no doubt, it is explained by the physical violence which has accompanied the historical expression and repression of this revolutionary doctrine. But

at the back of this feeling, and screened by it, sits the desire to disbelieve in the equity or the practicability of a way of life so disturbing to established institutions, and in particular to private property. There is even a revulsion against the ideal of economic equality and the uniformity of life which communism suggests. Yet the ethics of communism, as expressed in the Saint-Simonian maxim, 'From each according to his powers, to each according to his needs', would seem to express the highest aspirations of justice and humanity. It is the accepted ethics of that simplest human group, the family. Where families are virtually self-supporting economic units under the conditions of isolated settlements, this communist rule everywhere prevails. Personal property is confined to articles in actual use, and, by some paternal authority or by mutual consent each does his best in the upkeep of the family, and satisfies his needs out of the common stock. Any shirking on the one hand, or 'hogging' on the other, is resented and repressed by the censure of this little society. There are, no doubt, departures from this sound economic rule, the greed of 'the old man' in the primitive family, or some element of favouritism. But in the 'best families', where members are attached by ties of customary coöperation and affection, practical communism prevails and is accepted as 'right'. Nor is the rule confined to primitive conditions, or isolated families. In any factory town of Lancashire or Massachusetts, large numbers of families with several grown-up wage-earners, father, mother, sons, and daughters, conduct a limited communist economy, paying into the family purse a proportion of their earnings, and taking out what satisfies their several needs.

§ 3. Nor is this communism always confined within the family. Apart from the often-cited instances of a modified tribal communism in backward tribes, whose livelihood is got from hunting, fishing, looting, or common cultivation of the soil, the natural validity of communism as a social princi-

ple comes out in every sort of emergency where close coöperation on these lines is an evident condition of survival. It is practised by shipwrecked people in a boat, or on an uninhabited island, or in a besieged town with straitened supplies. But the most remarkable testimony is furnished by a nation at war when driven to extremities. Though vitiated by many defects of operation, every belligerent European country in the Great War moved, under the pressure of economic emergency, more and more along the road to communism, claiming that every man should do 'his bit', and should take the 'rations' allotted to him in proportion to the needs of himself and his dependents. France, since the war, has formally proclaimed war-communism, by a law placing all civilian persons and property at the disposal of the State in the event of another war. Indeed, the conditions of modern warfare compel the adoption of such an economy as a condition of survival.

It is not surprising that this emergency economy should have acted as an advertisement of communist doctrine. The struggle for a safer and a better life is the chronic situation for the majority of the peoples in most countries. It is a continuous emergency. Why should not the principle and practice, held to be equitable and practicable for war-time, be applied to peace-time? The familiar answer is that the emergency of war arouses in the members of a nation a sense of solidarity which makes them willing to undergo personal sacrifices and an authoritative discipline which they would reject as a normal regimen. In ordinary times this willing submission to a single social will simply is not there. A formal, or even an operative, socialism or communism may, indeed, as we are aware from recent experiences in Russia and Italy, be imposed by a 'conscious minority' or a 'dictator', with a tacit or even a willing assent of the majority. A people may thus submit, for a time at any rate, to serve the State, or Government, or its magnetic chief, from

some mixed motives of fear, admiration, and herd-feeling. But it is difficult to conceive a durable communism without a general consent of a more positive order. There is a world of difference between assent and consent. The former implies a submission, the latter an expression of personality. A morally sound communism, indeed any securely practicable communism, implies a conscious and continuous desire for the good of the community far stronger than appears to exist in any civilized people. In fact, the general trend of civilization has been, according to the accepted interpretation, a growth in private personality, and a decline of imposed or accepted social regulation. Even if, as we have argued, this antithesis is not ultimately sound, because in civilisation the individual person becomes more social in his ways of life, the prominence of the distinctively self-regarding feelings seems to prohibit the sort of self-surrender demanded for effective communism. In the Western world, at any rate, the sense of personal dignity, the standing up for one's own rights, the pride in making one's own way in the world, the sporting and adventuring spirit that craves risks and conflicts, are regarded as most highly valued ingredients in a personality. Man is, indeed, a social animal in the sense that he likes to work and live with others, and that their good, individual and collective, has some appeal for him. His group, his nation, the race, even humanity, have some moral value for him, declining in significance as the circles widen. But his own regard for his private interests and satisfactions is generally paramount. His actual mentality is exceedingly remote from the communistic requirements.

"The new society will come 'when people have become accustomed to observe the fundamental facts of social life, and their labour is so productive that they will willingly work according to their abilities . . .' There will then be no need for any exact calculation by society of the quantity

of products to be distributed to each by its members: each will take freely 'according to his needs'." [1] The forcible domination of a small 'conscious minority' in Russia, repressing all opposition and all criticism, is defended as necessary to "accustom" people "to observe the fundamental facts of social life." The bad education and traditions of the past have moulded a 'human nature' which, as regards its social feelings and attitudes, is unfitted for immediate and wholehearted and clear-minded acceptance of the new order. A steady experience of that order, in an atmosphere where no opposition or criticism can confuse the mind or breed conflicts of feeling, will soon produce the needed changes of 'human nature' that will cause the ordinary man and woman to give to communism a real consent of intellect and heart. Such is the contention.

The difficulties of accepting it are many. The first and foremost is the difficulty in accepting the self-assurance of any dominant minority that their interpretation of human nature and its adaptiveness to communistic life is sound. Another closely related difficulty arises from the testimony of history to the tendency of tyrants everywhere to mask their greed for personal power under some specious pretense of public service. It belongs to the developed intellectualism of modern times to weave a whole 'philosophy' as a support for this performance. Where both this philosophy, and the experiment that it is invoked to bless, are forcibly protected against all questioning, this denial for the future of that free-thought from which this very doctrine and policy claim to have emerged victorious, cannot be expected to win the acceptance of those who continue to believe in the vital values of continuous truth-seeking. In a word, the notion of a complete revelation of a society, so revolutionary in design, so violent in its attempted realisation, so indiscriminate in its application to the diverse patterns of the web of social

[1] Lenin, quoted Laski, *Communism*, p. 163.

life, can only seem acceptable, either as a counsel of despair to minds maddened by the disorders and miseries of their immediate surroundings, or as a beautiful dream of social solidarity to a few selfless idealists, or as a cunning design for the attainment and exercise of power to insincere or self-deceiving politicians.

§ 4. The ethical ideal is a sublime one. If, on such a basis, society could get all its work done with skill and energy, if the best powers of invention, initiation, and enterprise were placed at its disposal for the improvement of the arts of industry, if industrial energy and capital could be directed in due proportion along the various channels, while a proper control of population throughout the entire economic world could hold in check the operation of the law of diminishing returns, every dictate of reason, justice, and humanity would seem to favour such a system of society.

It may even be admitted that the ambition and the greed for power in the advocates and executants of communism are not fatal to its claims. A man may easily combine genuine philanthropy, or a sincere regard for public welfare, with a craving for personal distinction and the exercise of personal power. The crucial test is the ability of communism to evoke and maintain all the necessary economic incentives. This is a problem of practical psychology. In the application of such a test we need not assume, with the cruder popular exponents of the classical economics, that man is always as lazy and as greedy as he dare, that he works exclusively for personal gain, and that, therefore, all curbs upon profiteering must react disastrously on industrial efficiency. On the contrary, it may, and must, be admitted that man is naturally active, that he likes to discover and apply power of body and mind to constructive work, arranging his natural environment, partly for the sheer pleasure of doing things, partly for the satisfaction of enjoying what he has done or made. Nor does he work only to serve his

own ends. He will often put himself to considerable trouble to do things for other people, taking his compensation from the pleasure he has in being helpful. Within limits he is altruistic or social, and, even when he is actuated primarily by his own interests, will like to recognise that the work he chooses to do has social value.

So, while seeking gain, he is not insistent on taking all the gain he can, unless he is a merchant whose chief or sole concern is with prices, and even as a merchant he will have his scruples. There are many other incentives to economic activity besides profit or pay. Satisfaction in doing a job thoroughly and well, pride of achievement, honour, sense of power, duty to society, these and other motives enter into the economic life. But, it will be urged, granted these other motives are operative in certain higher types of work, most hard useful work, done for any length of time is so devoid of intrinsic interests, so disagreeable, that the ordinary man under normal conditions will only perform it under the urgent need of a pecuniary reward. Much of this hard disagreeable work is essential to civilisation, has a high social value, but is it practicable to make this sense of social value an operative motive in the worker's mind, displacing or subordinating his present sense of personal gain? Can it be expected that uneducated labour has to any appreciable extent a sense of social value? To most intellectuals the image of themselves as performing such manual labour is so repellent that they cannot conceive anybody undertaking it except under the urge of sheer economic compulsion. Nor can they impute to the separate human cogs in the elaborate economic machine any consciousness of, or interest in, the human services it renders. But against this view let me cite a more liberal interpretation of the worker's attitude.

"The worker's point of view implies the recognition of the social necessity of the work he does. He feels himself a man in his work, not merely in his own body, but in the effects of his work on other

men. This is no theoretical economics or hypothesis that labour is the sole source of wealth; it is the simple observation of the dependence of men in society upon the work done for the upkeep of society. Perhaps there are some leisured and cultured persons in our 'select' residential districts, who inhabit what is called either bijou or baronial, who really think that the engine-driver or the dustman does his work without thinking about it. Descartes, that very select philosopher, thought birds were automata; and those who get their ideas and emotions from a lending library seem to imagine that manual workers are automata. But speak to dustmen, or railway guards, or coal miners, and you will find the sense of the social value of work done very widely appreciated by them. It is almost a physical sense of the unity of the acts which go to make up civilisation." [1]

But neither Mr. Burns, nor any other exponent of the workers' point of view, would maintain that this "sense of the social value of work" would go far as an actual incentive to its due performance, unless the worker were liberated from the insecurity and other cramping conditions under which he usually works. Nor can it be denied that the monotony of dull, highly subdivided labour, especially when machinery sets the pace and rhythm, does tend to impose a measure of automatism upon the worker, and to keep on a low level what sense or feeling he can be said to have for the social utility of his work, and its place in the organic unity of the economic system.

It may also reasonably be claimed that the growing reluctance of workers to give out their best energy for the profit of employers and shareholders implies some sense of the wider social significance of their labour. But while resentment against profiteering might be relieved by the conversion of a private into a public undertaking, experience does not indicate that the sense of being a public servant creates a live interest in the efficient performance of work which in its nature is dull, toilsome, and uninteresting. The 'public' and 'the government' are not objects of affection

[1] C. Delisle Burns, *The Philosophy of Labour*, p. 36.

whose 'good' has a keen appeal. 'The government stroke' is generally held to be somewhat slower and slacker than the stroke of private enterprise. This may, of course, be explained as a legitimate and wholesome reaction against the excessive drive of managers and foremen bent on grinding out profits for shareholders. The slower government stroke may make for human welfare. But upon the whole, it is not safe to assume that the private personal incentive of gain can readily be displaced by any other complex of personal and social motives in the current economic system.

§ 5. This judgment, however, may be held to assume too static a view both of human nature and the economic system as a whole. Alter the structure of economic institutions, as expressions of human relations, while preserving and improving their material technique, and you may get important changes in economic incentives. Such proposals do not imply a belief in any miraculous transformation of human nature regarded as an organic complex of inherited physical and psychical capacities, but rather a belief in the possibility of such changes in the economic appeal as will bring into fuller play some of these capacities and give diminished importance to others. Economists have sometimes recognised this possibility. "It is true that human nature can be modified: new ideals, new opportunities, and new methods of action, may, as history shows, alter it very much in a few generations: and this change in human nature has perhaps never covered so wide an area and moved so fast as in the present generation. But still it is a growth, and therefore gradual; and changes of our social organisation must wait on it and therefore they must be gradual too. But though they wait on it, they may always keep a little in advance of it, promoting the growth of our higher social nature by giving it some new and higher work to do, some practical ideal towards which to strive." [1]

[1] Alfred Marshall, *Principles of Economics*, p. 49.

But what should be that "practical ideal", and how far should it be set towards the achievement ultimately of the communist ideal, "From each according to his powers, to each according to his needs"?

Before adopting this final criterion, it will be well to explore a little closer its chief implications and in particular to consider its relations to what is termed a Functional Society. The contrast between an economic society operated by the acquisitive urge of its individual members, and one operated by a sense of the obligation to perform a social service is a modern presentation of the ethics of industry in conformity with the organic conception of society. Mr. Tawney thus defines the Functional Society. "A society which aimed at making the acquisition of wealth contingent upon the discharge of social obligations, which sought to proportion remuneration to service and denied it to those by whom no services were performed, which enquired first, not what men possess, but what they can make, or create, or achieve, might be called a Functional Society, because in such a society the main subject of social emphasis would be the performance of functions."[1] Now so far as relates to the productive processes, the functional view is in close agreement with the communist formula. Every man should be set to do that work which makes his best contribution to the requirements of society, and to do it as efficiently as possible. His job will be determined not primarily by his own preference, but by the relative social importance of his several capacities. From each according to his capacity for serving society. But when we take the other aspect of functionalism, the proportioning of remuneration to services, some divergence in the two formulas appears. 'According to service' is not obviously identical with 'according to needs.' The service test would seem to demand a distribution of the whole produce or income of the society

[1] R. H. Tawney, *The Acquisitive Society*, p. 29.

in proportion to the value of the services rendered, or of the function performed. But the difficulty arises that in an organic conception of society there is no clear criterion for assessing the respective value, importance, or utility of the several functions.

It may, however, be held that 'remuneration according to service' signifies a true subsistence or efficiency wage, one which suffices to make each worker do his particular work for society in the best way. But even so, this rule does not cover the whole problem of distribution in a society where coöperative economy produces, or is capable of producing, more than enough to make these subsistence payments. If it be urged that any such surplus should also be distributed on a functional basis in such wise as to improve the efficiency of the various orders of producers, and to improve the capital structure of the industries (with due regard to any economic functions performed by governments with revenue derived from taxes), such a view seems to envisage the economic problem as concerned only with the promotion of economic productivity and not with the furtherance of human welfare, save so far that welfare is dependent upon productivity. Now this is manifestly not the conclusion intended by Mr. Tawney to flow from the application of the functional conception. A 'functional society' cannot be contained within the limits of economic activities: the economic activites will be inextricably bound up with other non-economic activities contributing to the full functioning of the organic life of individuals in a society.

Now as we perceive, alike in the performance of economic processes of production and of consumption, other functions of human life are affected, and our human valuation requires that, both in allotting work and in distributing the product, these influences upon non-economic interests and values be taken into account. Therefore, a well-ordered functional society, in allotting the several tasks to its members, would

have regard, not only to the consumptive requirements of society and the specific abilities of its members to make their contributions, but also to the reactions which these several contributions will have upon the general well-being of the performers. A human, as distinct from an economic, interpretation of 'from each according to his powers' will insist upon interpreting 'powers' or 'abilities' in such wise as to take account of any non-economic injuries or gains resultant on the performance of an economic function. Still more exigent is the demand for a liberal interpretation of 'to each according to his needs', in conformity with the conception of an organic society. "The ideal distribution," says Dr. Hugh Dalton, "would rather be a distribution according to the capacity of individuals, or families, to make a good use of income." [1] Nor is 'a good use' confined, as the older economists would have it, to the productive services it enabled the recipient to render, or, even in our human interpretation of economic processes, to its favourable reactions upon total costs of production and utilities of consumption. Wealth, the product of work, should be distributed according to the support it renders to the whole life of the recipients. It should give to each what each is capable of utilising for a full human life. Capacity of use or enjoyment, not 'needs' in its narrow significance of physical or even spiritual necessities of life, must be our humanist interpretation of the formula. It must cover three categories of payments, first, that required to maintain a member of society in the performance of his special economic function; secondly, a full, human maintenance fund for a member of a civilised society; and thirdly, an adequate economic provision for such education, travel, social intercourse, or other opportunities of personal development and human enjoyment as may raise his human value for himself and for society.

[1] *Inequality of Income*, p. 10.

In other words, if we adopt the 'needs' basis of distribution, as we do, it is because this is the shortest convenient formula for equitable distribution in accordance with capacity for the personal and social utilisation of income.

§ 6. Now, taking this statement of what we may term a practical ideal, what are the changes in economic organisation and in the mental attitude of members of economic society, which may contribute towards its realisation? The moral atomism of the economic system, the absorption of each member in private gain-seeking, must evidently be the first object of attack. Such a distribution would secure, in principle, that the real income of a community was consumed in such a way as to yield the largest sum of human welfare, measured by any accepted criterion of a desirable life. But though this principle may be morally attractive, we have to ask how far it is capable of application. To some extent we can estimate the different needs of men for efficient performance of their economic work: there is some ascertainable relation between the intake of food and the output of physical energy in productive labour. We may even carry this natural adjustment of consumptive to productive efficiency a little further, recognising that certain material comforts and conveniences, such as house accommodation adequate to privacy, the liberty of movement afforded by a motor car, the ownership of books, etc., may be real contributions to economic efficiency for many types of worker. But when we rise above a true subsistence level we find it more and more difficult to compute the economic advantages of further payments. And when we treat payment according to needs from the standpoint of what is 'needed' not merely to support economic efficiency, but human efficiency in its broader meaning, we seem soon to pass the limits of the practicable.

Indeed, two objections to 'the needs formula' are raised by Professor Laski; one based on the impossibility of dis-

criminating between the capacities of different men for using or enjoying wealth, the other upon the deficiency of the aggregate income of a community for satisfying the full and ever-growing 'needs' of its members. Mr. Laski therefore holds, "Needs can only mean average needs. We have to assume some means of citizenship and make our principle of reward hinge upon that mean. We must therefore fix our standard remuneration at a level which does not take account of individual idiosyncrasy. Any principle of reward must satisfy the two complex conditions, that it enables the individual to reach out towards his best self, while, simultaneously, it preserves and develops the necessary functions of society." [1]

Now, in order to realise this economy, we must supplant the concept of direct individual income by that of participation in communal income. Though I do not think our principle ties us up to a single standard of remuneration, irrespective of the nature of the economic function of the recipient (the equality demanded by Mr. Bernard Shaw as the foundation of true socialism), it undoubtedly makes towards equality of income, only justifying such differences as are manifestly useful in securing the more efficient performance of particular human functions. But this equalisation of income, so far as it goes, is not a denial in principle of the equity of 'distribution according to needs', but rather a concession to the difficulty of entrusting any authority with so delicate a task of discrimination. It should be recognized that the failure to do this difficult thing implies a waste. For it treats men as if they were equal in their capacity to use wealth, though they are not equal. *A* will get more than he can use well; *B* less. But this waste may be smaller than it would otherwise be, provided that the communal income is large enough and varied enough. For each man's effective standard of consumption will be determined not

[1] *A Grammar of Politics*, p. 195.

only by his use or enjoyment of his private income, but by his capacity to make good use of the community's income. The goods and services that constitute this common income may be altogether free for the enjoyment of all citizens, or they may be cheapened by subsidies. While education in all its levels, technical and cultural, may be free, train travel or the municipal theatre may be subsidised. In either way citizen-workers will have their private earnings enlarged by access to these stores of public wealth, though in different measures proportionate to their differences in inborn tastes and capacities of utilising these public opportunities.

Since leisure is the opportunity of opportunities, the full human utilisation of this communal wealth will hinge in no small degree upon the distribution of leisure, i.e., in the proportion of spare time and energy after each man's performance of his special economic function. One of the greatest difficulties in planning an ideal social economy is in the apportionment of leisure in proportion to ability to use it well. Those who, like Mr. Bernard Shaw, would solve the difficulty by getting the disagreeable and uninteresting work done by a shortening of the working day, only land themselves in a fresh quandary. Equality of money income with inequality of leisure would signify great waste of communal opportunities. For there is no natural adjustment between the longer leisure for scavengers or coal miners and the shorter leisure of gardeners and teachers with regard to their respective capacity to use their leisure.

§ 7. But, though it is thus manifest that the equitable principle of distribution according to ability to use is not capable of rigorous application, either as regards income or leisure, that is no reason against its recognition, not merely as a theoretical ideal, but as an actual goal towards which civilised man is advancing with an increasing consciousness of its validity. If we have to make concessions, as we have, to self-regarding motives in the endeavour to apply

the principle, we ought not to repudiate it as offering a genuine criterion for an ethical advance in economic organization.

The number and size of these concessions to the weaknesses of human nature need not, however, be assessed on the basis of a purely static human nature. When moralists talk of altering human nature they are often misunderstood to mean that instincts and desires deeply implanted in our inherited animal outfit can be eradicated and others grafted on. Now no such miracles are possible or needed. But substantial changes in our environment or in our social institutions can apply different stimuli to 'human nature' and evoke different psychical responses. For example, by alterations in the organisation and government of businesses and industries, so as to give security of employment and of livelihood to workers, and some increased 'voice' to them in the conditions of work, it seems reasonably possible to modify the conscious stress of personal gain-seeking and to educate a clearer sense of social solidarity and service. The insecurity of livelihood has been a growing factor in the discontent of modern workers, and it increases with an education that reveals the 'social' cause of that insecurity in the absence of any reliable economic government. Security is, therefore, the first essential in any shift of the relative appeal to personal and social motives. The second essential is such alterations in the government of businesses as to give to the ordinary worker some real sense of participation in the conduct and efficiency of the business. How far that signifies some direct participation in profits need not here be discussed. For we are only canvassing the prime conditions of 'a change of heart' in the workers. How fast and how far that change may go, we cannot tell. But metaphors derived from organic growth, such as Dr. Marshall used, may not give a fair impression of what is possible under some process of spiritual conversion, some swift change of intellectual and moral attitude, such as some ardent reformers find taking

place in an active minority both of capitalist-employers and labour leaders. The willingness to envisage an ever larger part of business as 'public concerns', with safeguards for industrial peace and regularity of employment in governing bodies representing the interests of capital, labour, management, and consumer, not merely within the area of single businesses, but over the wide provinces of whole industries and their interactions in the economic system, is nothing short of a new business mentality.[1] Much may depend upon the pace at which this new social economy, charged as it is with humanist ideas, gains acceptance in the world of business as 'a practical ideal' in Marshall's sense. At present it has gone no further than to produce a sensible softening of the atmosphere in a hard business world where masters and men are still out for what they can get.

The central importance of security of work and livelihood in economic reconstruction is not so much that it would lead to a direct stimulation of the sense of social service, as that it would call into play many elements of human personality, some purely self-regarding, others not, which have hitherto been stifled or repressed. Indeed, the opposition between selfish and social motives or incentives is often overstressed. A truly 'scientific' socialism would seek not to subdue the selfish impulses, but to harness them to the chariot of the community. The notion of a single centrally organised and controlled economic system, operated by a single social incentive, is a manifest absurdity. Industrial psychology discloses innumerable different sorts of work, the activities of which draw upon a great variety of incentives, all of which must be maintained in due relations to one another, if the work is to be done.

§ 8. How far does this conception of the variety of work

[1] A remarkable example of this distinctively socialistic doctrine is to be found in *Britain's Industrial Future: the Report of the Liberal Industrial Enquiry*.

and of incentives conflict with the realisation of the ethical ideal as expressed in the 'from each to each' formula? It is the will of individual workers that has to go into each particular piece of work, and that will to work is not directly operable by 'the social will'. A strong centralised bureaucratic will, as in Russia or Italy, may for a time by sheer domination evoke in the individual a spurious consent to work which is not the expression of his own free will. But history shows no instance of durable success for a modern economic system run along these lines. Modern industry cannot be operated successfully by servile labour: it demands a real consent to work, and this requires a personal interest on the workers' part, interpreted in narrower terms than public service, or the welfare of the community.

Are we then to conclude that, though socialism and communism are in themselves just and reasonable, they are unattainable, because of a certain recalcitrance in human nature? *Propter duritiem cordis!* Or is any idea of applying ethical conceptions to economic processes a fantastic irrelevance? This seems to be the view of some economists. Cairnes declared "that in the first place I am unaware of any rule of justice applicable to the problem of distributing the produce of industry; and, secondly, that any attempt to give effect to what are considered the dictates of justice, which should involve as a means towards that end a disturbance of the fundamental assumptions on which economic reasoning is based—more especially those of the right of private property and the freedom of individual industry—would, in my opinion, putting all other than material considerations aside, be inevitably followed by the destruction or indefinite curtailment of the fund itself from which the remuneration of all classes is derived."[1] In other words, if private property and individual enterprise were ethically

[1] J. E. Cairnes, *Some Leading Principles of Political Economy*, p. 263.

wrong, they would still be economically right! Would Cairnes have seriously maintained that a generally accepted moral condemnation of private property and profiteering would not react injuriously upon the economic value of these institutions? Is there not here a real confusion of thought? If industry is unworkable, except on a basis of private property and individual enterprise, and industry is humanly desirable, to assume that this basis might be morally wrong is in effect a contradiction in terms. An essential condition of a moral good cannot be unjust. But can any line of action be just or reasonable if it is impracticable? Here we come up against the main objection against socialism and communism among liberal-minded economists who clearly recognise the unfairness of the operative economic system. The late Professor Sidgwick gives concise expression to this view when he says, "I object to socialism, not because it would divide the produce of industry badly, but because it would have so much less to divide." [1]

Must we then say, "If man were more unselfish and more actively social than he is, the communist formula would be morally sound. But unless it can be shown that men's actual motives will respond effectively to the moral stimulus of this communist principle, a qualification of the principle is needed, so as to make its appeal more effective, and is in accordance with the dictates of justice?" But if, as we agreed, the communist ideal is an ethically sound ideal, and is in special situations practicable, it may be serviceable, in our closer attempt to assess economic processes in terms of ethical or human value, to take it for our starting point and to proceed by ascertaining what departures from, or modifications of, this principle are necessary and therefore justifiable for the time being, in considering the various economic activities or processes.

§ 9. But, first, a word of general criticism upon the anti-

[1] *Principles of Political Economy*, p. 516.

nomy of selfish and social. An intelligent consideration of the human economy, just as it recognises the true harmony of personality and community, will moderate the common moral estimate of selfishness. Even in its cruder form as a craving for personal gain and power, it cannot be condemned outright as anti-social and unethical. Reluctance to do a large amount of disagreeable and uninteresting work is a sound self-protective instinct: a demand for as much pay as you can get (in a system where nobody can know how much or how little he 'ought' to have), is a natural act of self-assertion, also with a protective value for the individual, and even a selective value for the species. Ethics does not require the submergence of the individual will in a social will: it seeks to discover and maintain an organic relation between the two, the several personalities, as well as the community, finding satisfaction in the play of the economic system. If it were possible to get a society where each was completely dedicated to the common good, the condemnation of this socialism on the ground that it crushed personalities and destroyed their values, would be valid. An ant community would not be a human community.

What we seek is such a composition of personal and social feelings in the members of a society as will lead each to do his best and take his 'fair' share. In operating such an economic society, it is made clear that concessions from the absolute principle of the communist principle must be made from both sides of the formula. Most of us would agree that a highly centralised economic government, seeking, by force or moral suasion, to organise all resources for social production and distribution, would not work. We could not get production run to its necessary capacity, if we distributed the products strictly 'according to needs'. And this, not merely because it is 'up against' certain selfish interests, but because the needs distribution is not generally accepted as 'just'. Though everyone would agree that the

family income 'ought' to be utilised according to the needs of its several members, and that a sick member might need and receive more than a healthy working member, this distribution does not even appear 'fair' or 'just' when applied to larger social groups. On the contrary, it seems just to many that men should be paid according to the output of their labour, payment by results. If a man does more, he should receive more! In the acceptance of this principle, however, it is evident that a certain assumption of expediency enters into, and even directs, the moral judgment. For, if we put the case of two men who exert themselves each to his utmost, but one being stronger gets a larger output, it does not seem so obviously just that he should be paid more. Payment according to efforts or sacrifices, on reflection, seems the fairer method. The difficulty here, however, is the absence of any reliable test or measure of personal effort. But even could such a difficulty be overcome, what we may term this second thought on equity of distribution would be displaced by deeper reflection in favour of distribution according to needs, as the higher ethical ideal. For, behind that principle, is no mere vague humanitarianism; the true instinct of economy finds its appeal in the fact that distribution according to needs, or more accurately, capacity to utilise, secures a larger aggregate utility out of a given quantity of concrete goods than any other principle. Equity here seems to harmonise with economy.

§ 10. But it will be pointed out with undeniable force that a wholesale application of this principle would produce so large a shrinkage of the dividend that, though the maximum utility were got out of it by such a distribution, the total utility would be smaller than that got from a worse distribution of the larger product under a payment-by-result system. This, of course, is the core of the case against communism, and it brings us back to the problem of incentives. Useful discussion of this issue has, however, com-

monly been sterilised by excessive generalisation, a failure to distinguish those parts, or processes, of the economic system where the needs economy may be practicable from those where it may not. Theorists have too commonly ranged themselves in extreme positions, confronting the respective merits of socialism with those of individualism, as if one or other must be right. Meanwhile, economic practitioners, whether figuring as statesmen or as business men, have been proceeding by informed opportunism and experimental method to test the opposing principles. The recent course of this experimentation in most Western countries shows a growing sense of the desirability of distribution according to needs as against distribution according to 'pulls'. In Britain a large and growing proportion of the general income is already diverted from the economy of private 'pulls' into the economy of needs by the spread of communal services, education, health, recreations, and amenities, provisions against old age, widowhood, unemployment, and minimum wage regulations. The mere fact that each decade shows a larger proportion of workers in public employment, where pay and continuity of employment are regulated with some definite regard to 'needs', marks substantial progress along the communist road. The movement, clearly visible in many European countries, towards a more equal distribution of income, by a levelling up of lower wage-rates, limitation of profits in semi-public undertakings, progressive taxation of high incomes, higher inheritance taxes, is sanctioned, not merely by a sentiment of justice, but by the recognition that by such policies a larger volume of welfare is got out of a given body of wealth.

But the movement concerns itself only with one side of the formula of economic equity, the distribution of the product. The problem of how to get from each his proper share of the human arts of producing the social income remains for solution. The two problems are, of course,

organically related. There are many who contend that the equalising and socialising processes we have described have already gone so far as to sap the economic incentives of production in certain fields. Others rejoin that an inequality of wealth, which enables a rich class to live luxuriously without rendering any appreciable productive service, involves a double waste. The rival problems of the Idle Rich and the Idle Poor!

# CHAPTER II

## HOW FAR IS EQUITY ATTAINABLE?

§ 1. In considering how far a just distribution of work and wealth is actually attainable, it is evident that some closer scrutiny of the requirements of the productive processes is needed. The problem of economic organisation for the common good is one of experimentation chiefly in the field of industrial psychology, so as to determine what economic activities can best be organised and conducted by public bodies, and what are best left to private business enterprise, with guarantees against excesses and abuses. Mr. J. M. Keynes has given concise expression to this view. "The true socialism of the future will emerge, I think, from an endless variety of experiments directed towards discovering the respective appropriate spheres of the individual and the social and the terms of fruitful alliances between these sister impulses." [1]

The drift towards public conduct, or control, of certain types of business in almost all industrially developed countries is manifest. It is attributable, not to any ideology, but to certain characteristics and conditions of these types of business. (1) Industries involving large capital outlay, and engaged in the supply of goods or services that are indispensable or vitally important, to all members of a national or local community, tend to acquire the powers of a monopoly.

(2) Most industries of this order, supplying on a large scale the standardised goods for popular consumption, make

[1] *The Nation,* May 20, 1924.

less call upon the qualities of initiative and enterprise, risk-taking, and high personal skill, which are so important in new and changing industries.

Though these types of business admit of many variations, they may serve here to suggest the general lines of investigation into the problem of the equitable organization of industry from the standpoint of productive incentives.

In order to secure in sufficient quantities the diverse commodities requisite to satisfy the present and prospective demands of a community with an equalitarian basis of distribution, what arrangement of incentives to production are required? That is one form our enquiry might take. But, if it is borne in mind that our main task is that of attempting an ethical or human valuation of the economic system as a whole, it becomes evident that, here as elsewhere, we must not accept as final the current standards of 'needs'. If these standards contain articles in themselves undesirable, although desired, our human valuation is entitled to reject them. For though we have admitted a *prima facie* case for identifying the desired with the desirable, we also recognise the right of informed and reasonable judgment to overhaul and to revise the current standards. This position has an obvious bearing upon our treatment of incentives. For where the conditions of production, needed to satisfy the current demands for certain articles, involve incentives or stimuli of work that are humanly degrading or otherwise injurious, we may hold that such human costs are not to be regarded as offset or compensated by higher pay, which, in the nature of the case, is likely to be ill-spent from the standpoint of human welfare. Put briefly, there are processes, as there are products, which carry such heavy damages that any well-advised government will prohibit them.

§ 2. Thus ethically qualified, our problem may be restated. What rearrangements of industrial organisation are needed, in order that adequate incentives may be applied to

maintain the desirable quantities of wholesome wealth, with a minimum of human costs in the shape of injury to health, intelligence, morals, and other elements of sound personality?

The scope of such a question is so vast as to make it evident that all that can be attempted profitably here is to propose some lines upon which social-economic reforms may proceed with a prospect of success. The simplest procedure is to begin by a general survey of the main sorts of human activities that enter production, differentiating them, as far as practicable, according to the nature of their urges or incentives.

Here we may perhaps provisionally accept the following hierarchy.

(1) The distinctively creative work of the artist, scientist, and, in some degree, the professional man.
(2) The work of invention or discovery, with some definitely utilitarian basis or intention.
(3) The higher business activities of organisation (technical and human) and enterprise.
(4) Technically skilled work, manual or brain, under management.
(5) Routine work, virtually unskilled, though often needing training and practice.

If we take the accepted grouping of occupations as fighting, farming, arts and crafts, the professions, manufacture, transport, trade, we shall find that each of them calls for elements belonging to all the sorts of human activity, though in widely different proportions. But our purpose is with urges and incentives. And here, at the outset, we encounter a valuation which appears to cut down, or even to vitiate, the commonly accepted ethical standpoint. This standpoint would give precedence to the motive of social service over any other motives. But the productive activities of the artist and the scientist are intrinsically interesting and pleas-

urable, the creation of beauty and the discovery of truth. The creative activity seems to need no outside stimulus. It is a natural urge whose attendant satisfaction is its own reward. The sense of achievement, fame, and the sympathy of others, count in to give a positive balance of utility over cost upon the side of work. Such work is so remote from most other work that it is commonly excluded from the concept of the economic system. But even the artist must live, and the terms on which society provides him with a living brings him into the economic system, and sometimes interfere incalculably with the human worth of his 'product'.

I have classed the professional man with the artist and scientist, because, like them, he has what is called a 'vocation,' work with a human value of its own so intrinsically interesting that it can be liberated to a large extent from the 'pay' motive. That sense of a vocation is here closely linked with a sense of its utility to others. Social feeling is directly implicated. It would seem that society ought to be able to get all these higher goods and services, which carry no net human cost, by furnishing a decent livelihood. Security and sufficiency of pay would leave these workers 'free' to do their best and most valuable work. The poet, or artist, is the supreme example of this costless economy.

> "I do but sing because I must
> And pipe but as the linnets sing."

There are conditions of society favourable to this natural harmony between producer and society—where poet and musician, philosopher and man of science, can work 'for love' and not 'for pay', and where even professionals do not give close conscious attention to fees and salaries, or haggle as to their amounts. And yet, as we are aware, this purely functional view of a vocation is notoriously false to the conditions of modern life. The financial motives of our economic system easily corrupt the vocational sense. Men of liter-

ary, artistic, or other creative gifts, are often greedy to extract from society the full 'scarcity' value of their products, and even knowingly to prostitute their genius to the market. Even more does this apply to the professions which cannot be 'free' in the personal sense of the creative arts, in as much as their work is a direct service to humanity. Moreover, the elements of routine and drudgery, from which no work, however creative, can be free, enter more largely into the professions than the arts. Partly for this reason, professional men are often as keen money-makers as are tradesmen, and the 'ethics' of their profession warrant them in exploiting to the utmost the personal emergencies of clients.

Nevertheless, it remains true that a wide difference exists between these sorts of work and ordinary industries. It would seem far easier to 'socialize' the professions, to convert the services of health, justice, religion, education, recreation, into public services maintained on fixed salaries out of the common purse. In fact, most civilised communities are moving rapidly along this road, at any rate as regards the more urgent needs of body and mind, while even the fine arts are largely communalised by free museums and galleries, subsidised theatres and opera houses. Possibly broadcasting, the cinema, and even the newspaper press, when their full vital significance is realised, may pass under public organisation.

Here, however, a grave dilemma is presented. On the one hand, left to purely private enterprise, these arts tend to degenerate into money-making trades, giving the public, not what it ought to want, or even what it does want, but what it can be made to want on most profitable terms. On the other hand, the quality of an art publicly controlled and regulated would be exposed to graver damage than that of any other service, precisely because it is essentially a fine art dependent on the free play of creative faculty.

There are two possible escapes from this dilemma. One is

to distinguish the higher from the common standards of these artistic and professional services, leaving the former to the advantage and risks of private enterprise. The other is to endeavour to secure conditions of freedom, personal initiative, and experiment, within the sphere of a public service. Education presents the test case. It is a false view of education to consider it directed exclusively to individual character and attainment. It has both a social and an individual function. It has to make a child conformable to membership of a society with a common body of accepted knowledge, and common ways of thinking and living. It has, likewise, to discover and improve any special qualities and aptitudes of each individual child, so as to give increased opportunity to his personality and to enlarge his personal contribution to society.

Some would confine the public teaching to the former task, turning out what is substantially a standard child, and leaving the individuation to the home or to free private institutions of higher learning. Others would rely upon the liberalisation of publicly controlled institutions for all, or nearly all, educational purposes, endowing individual teachers with wider freedom in mode and matter of teaching. The dilemma, of course, is not peculiar to education. It arises everywhere, though not with equal sharpness, because in the total economy of a man, the self-regarding and the social aspects and activities stand in organic relation to one another. It is the pervasive problem of federalism.

Invention and discovery I treat as distinguishable from pure science, regarding them as the high servants of industry, the direct contribution of science to the material arts of life. Great discoveries have sometimes seemed to belong so much to the miraculous, or at least the incalculable, as to render any estimate of gainful incentives inapplicable. History has often seemed to exhibit the inventor as an incapable business man, commonly the prey of some more

cunning neighbour. But invention has in large measure ceased to be a miracle and has become an art. The natural gift is found to be far more widely diffused than was supposed. Moreover, training and direction have greatly enhanced the value of the natural aptitude. Research work and modern laboratories have multiplied enormously the pace of progress. But the attractions of novelty and achievement still remain, and thousands of bright trained intellects are available on terms of pecuniary reward ridiculously disproportionate to the economic value of the services they render.

§ 3. Perhaps the chief controversy regarding economic reconstruction turns upon the functions and incentives of the business men who are the organisers, managers, and controllers of industrial, commercial, and financial undertakings. The popular estimate of this business man, his character and career, is strongly affected by a type properly belonging to an early period of capitalism, in which the factory owner or ironmaster forced his way by industry, grit, and foresight, founded his business with his personal savings or borrowed capital, bought his machinery, raw materials, and labour, and marketed his product, so as to get the maximum profit, which he kept to himself as interest, wages of management, and payment for risks. Such hard-headed, shrewd, industrious, thrifty, avaricious men built up mid-nineteenth century capitalism in Lancashire and New England. They must work, each in his own way, and for his own hand. They would not function under control of a State department, a public board, or even a company directorate, for a fixed salary, however large. They wanted a free hand in the control of men, the manipulation of business plans, adventure in markets, pursuit of personal gain, the seeing a business 'of their own' grow and flourish. Arnold Bennett well depicts this type in his mid-Victorian 'Five Towns'. It still survives in the less developed manufac-

tures and in some branches of wholesale and retail commerce. But big business to-day everywhere runs upon other lines. Banking, insurance, and finance, the great staple manufactures, mining, shipping, railroads, electricity, the press, the cinema, the theatre, are moulded into joint-stock corporations. Every year sees a larger proportion of private business passing into this form.

With this change of form there is a change of business functions and incentives. The employer-manager is a salaried official, seldom the owner of any considerable share of the capital. Salaried experts are employed as buyers and sellers, accountants, engineers, and departmental managers. Questions of high finance fall to the directors, in British companies mostly to the chairman or managing director. Even the chairman usually gives only a portion of his mind and time to the concern, and most of the directors know little of its technique or finance and have interests in other businesses to occupy them.

In no part of our business structure is greater waste displayed than in the expensive maintenance of almost functionless directorates. This applies with particular force to big business in Britain. "A directorship in a great public company, such as a bank or an insurance office or a railway, is apt to be awarded to influential people who bring business or lend to the concern a colour of respectability and social distinction in the eyes of the public, but are without technical qualifications for the management of the business." [1] In less measure this same criticism is applicable to the operations of American 'corporations' and German 'concerns'.

The severance between ownership and responsibility is, however, the most distinctive feature of the joint-stock company everywhere. Apart from the investment of their money, the shareholders are virtually functionless. They

[1] *Britain's Industrial Future*, p. 98.

are the legal owners of the business and take its profits but they exercise no real control. For the most part they are otherwise engaged in other businesses or professions, or are persons of 'independent' means, having neither the knowledge nor the opportunity to take any effective part in control. Most shareholders are not dependent for their income upon profits from one particular business, and are satisfied if the usual dividends are paid. In any case they are nearly helpless. Only when a controlling interest is kept in a few capable hands do we find a survival of the character and motives of the older business type.

§ 4. But though orderly routine, subdivided functions, and settled salaries may thus seem the distinctive features of this business world, there are actions, plans, and policies of great delicacy and importance that remain in the hands of the modern captains of industry and finance. The productivity and profitable conduct of a business depend mainly upon the powers of imagination and insight, reasoning and calculation, judgment and courage, of great leaders. The direction of capital and labour into the proper channels, the laying out of the business, the adoption of the best technique in production and in marketing, the determination of what, when, and where to buy and sell, the relations of competition and coöperation with other businesses, economics of finance, the handling of politics where it touches business, as in tariffs, taxation, etc.—these matters of high policy belong to men who, it is contended, must have freedom and power and the pecuniary rewards of an adventurous career.

Some of this high ability is not, indeed, conducive to socially sound business ends. It runs either into wasteful competition, financial gambling, or restriction of markets, and is responsible for the uncertainty and insecurity that everywhere carry such heavy material and moral damages. But in a world of economic changes the services of a few men with a keen eye upon new inventions and discoveries,

and an accurate forecast of their industrial uses, with a sound judgment of men and of business opportunities, capacity of quick decision, and the courage to back their judgment in adventurous action, are indispensable to social progress.

Can the brains and wills of these men be secured for industry consciously directed to the public service? Defenders of the present economic order take the following line of argument. 'These great business men *are* servants of the community. Though they make large fortunes, these are trifling compared with the benefits they confer on the consuming public. Moreover, they are not primarily out for money, though money comes to them. They are motivated by the love of power, the exercise of skill, and the excitement of the business game. Not a few among them are prompted by a deep sense of social service, and administer their business in this spirit.' But they go on to say, 'You cannot hope to enlist these productive geniuses in the formal service of the public. You must not seek to cramp their independent initiative and enterprise. A Rockefeller would not administer the oil business as well, if you made him chairman of an Oil Department at Washington, and Henry Ford's gift for organisation and marketing would wither if it had to function through a public office. Even more disastrous would it be to place the delicate operations of finance in the control of salaried officials.'

Here the struggle between the rival concepts of socialism and individualism is closely locked. The socialist looks to the undeniable fact that most big business tends to standardisation and routine and the elimination of free competition. The individualist insists that novelty and progress in production can only emerge under the stimuli of private profit-making enterprise.

§ 5. Now if it be true that the only sort of man who can administer industry efficiently and progressively requires high pay and a free hand, a reasonable socialism must meet

these conditions. But before admitting it, there are certain considerations to be canvassed. Such work is important and often interesting: the sense of doing important and interesting things has a high personal value which can be enhanced by fame and honour. Where a competitive system allows enormous pecuniary rewards for certain sorts of skill and enterprise, these rewards will be sought and claimed, partly for their own sake, partly as the index of success. But were they unattainable, other motives might operate with equal force. Self-assertion, power, good fellowship, exercise of skill and judgment, reputation, not to speak of the satisfaction of doing good useful work—these motives also belong to ordinary human nature. An ordered economic system might make so much of them that the extravagant pecuniary rewards at present paid to lords of industry and professional stars might become unnecessary. Indeed, if economic progress depends on the discovery and application of new knowledge, those processes are ill-served under our competitive system. The arts of discovery are ill-organised. Our great industries are very slow to furnish the money and the brains for research laboratories. Chemistry, physics, psychology, even skilled accountancy and finance, mean little to most business men. Little attempt is made to gather and utilise the innumerable minor improvements which can only occur to those engaged in the detailed working of a plant.

Is it possible that public services might be so intelligently ordered and administered as, not merely to obviate the bureaucratic defects of slackness and misoneism, but to encourage and stimulate energy, initiative, and progress? In answering this question much will turn upon the nature of particular industries. In general, it will be contended that the long developed industries will accommodate themselves more easily to the conditions of a public service, while the new and more experimental industries are best left to the

conduct and incentives of private profitable enterprise. The crux occurs in such a new industry as electricity, still in a highly experimental stage, and yet of fundamental importance to the whole industrial fabric. Can public control of such an industry be exercised with sufficient delicacy and consideration to safeguard the community against excessive or discriminating charges, while providing to the skilled engineers and their business backers sufficient monetary inducements to secure the most rapid progress of the industry? Here, as elsewhere, we shall recognise that conflict may arise between social service and present pecuniary success. This is sometimes forgotten by critics of socialism. Our Post Office could doubtless be run more profitably by reducing or cutting off services in thinly populated and less accessible districts of the country, but its social service would be thereby reduced. A public service is not bound to make good its claim to be well administered by accepting the same canons of cost or of prices as rule in profit-making business. It may pay higher wages, work shorter hours, charge lower rates, than a private business, and yet be justified morally, and even economically, by its results when expressed in terms of welfare.

§ 6. But even if allowance be made for this difference between the strictly business and the welfare valuations, it may still be urged that the hope and prospect of great pecuniary prizes will be necessary to secure alike for public and for private business certain types of high efficiency. 'To each according to his needs' even upon a liberal interpretation of 'needs', would not appeal to men who see in money the sole or chief index of personal success. While it may be true that an economic system, suffused with a spirit of equity and social service, will powerfully react upon current criteria of personal success, thus weakening the relative importance of the monetary estimate, this educative process may be slow and insufficient to 'socialise' the natures of certain hard, ca-

pable, selfish types of men, who will refuse to give their best work unless they are free to take high rents of ability. So far as this is true, it would be folly to press an equilitarian principle of distribution that failed to take this fact into account. The demand for high renumeration in such circumstances must be regarded as a necessary cost of production.

If a great organiser or the inventor of a new technique, a great lawyer or surgeon, a painter or novelist of genius, insists upon exploiting his genius for pay, it will be a point of sound social economy to satisfy this demand. But not necessarily upon the basis of allowing him to take 'all the trade will bear', the full rents of his monopoly or of scarcity. For this full exploitation of his market is not a true measure of what he *must* be paid, in order to get for society the best use of his ability. A Rockefeller or a Ford, or any other multimillionaire, would do his best if his earning power were reduced to a tithe of what he actually takes. A lawyer or a surgeon who, in London or New York, can get five thousand dollars for arguing a case or performing an operation, would do it equally well if he could only get a hundred, as indeed he would, if he were working in Sweden or Switzerland, where the supply of equally good professional talent is more ample, and where the number of persons able and willing to pay the higher scale of fees is much less. So with the artist or novelist. If he is 'out for money', he must have the money he is 'out for', but not the unchecked exploitation of his scarcity value. The qualification is one of great importance. Discriminative payment is a recognition of human facts: unrestricted exploitation of a market is a waste of economic resources, due to a defect of economic government.

# CHAPTER III

## INCENTIVES TO LABOUR

§ 1. So far we have been engaged in considering the dictates of equity and humanity as expressed in the formula 'From each according to his powers, to each according to his capacity for use' as they are applicable in the operation of our economic system to the higher types of creative and productive energy. We now turn to the larger and more insistent question, how far the formula is applicable to the grades of wage-labour, the masses of workers doing skilled or unskilled, trained or untrained, labour, with hands or brains. How far would attempts to put our equitable formula into practice disable society from getting the necessary and desirable quantities and qualities of this labour-power for the processes of production?

The problem is new, alike in shape and in intensity, because of the new attitude taken by workers towards their work. Until lately, even in the developing industrial countries, a customary acquiescence, qualified by grumbling in bad times, was the normal attitude. Such conflicts as occurred between employers and employed were generally confined to some specific concrete grievance, usually of rates of pay, and scarcely ever envisaged any active quarrel with the status of the worker in the system. The worker in most trades, and in most countries, has now broken away from this traditional attitude. Now predominantly a townsman, in constant personal contact with numbers of fellow-workers in his own and other trades, and sensibly affected by the rapid changes in material conditions by

which town life itself has been transformed in the last half-century, he has acquired new ways of life, demands better housing, clothing, amusements, and is interested in education and politics. From such sources he has acquired a new sense of personal dignity and freedom. 'Ideas' have got into his head—and hers. For the larger part played by women in the world of industry outside the home is an important factor in the new labour situation.

New conscious 'claims' of labour have arisen, of varying form and appeal in different countries and occupations, but in general conforming to a single pattern or ideal. For convenience they may be grouped as follows:

(1) Claims relating to pay. Demand for 'fair' wages, and for some share in 'profits', either in the shape of wage-rises, or of some other 'sharing' process.

(2) Claims relating to other 'conditions' of labour, such as security of employment, shorter hours or more leisure, and protection against driving and other exhausting practices.

(3) A 'voice' in the control of the business, so far as it affects the employee, with a growing realisation that every activity within the business, including technique, finance, and marketing, does affect the employee. Thus a 'voice' tends to expand into a 'share' in control, or even 'the control' of business.

§ 2. In any moral interpretation and valuation of the economic system these claims and attitudes are of deep significance. How far are they consonant with an equitable transformation of business forms and government that is capable of delivering the material and human goods?

In Britain, and more or less throughout the Western world, the growing productivity of the industrial system in the nineteenth century seemed to give attainability to the more urgent and more conscious claims. Real wages had risen four-fold during that century, there was a general shortening of hours, and a development of organised bargaining between capital and labour had evoked a new collective consciousness and sense of power in labour. The check

upon wage-increase in the present century for most workers in most countries brought bewilderment, consternation, anger, and a new dangerous state of mind. Science was busily performing new economic miracles. Motor cars, radio, electric power, aeroplanes, stirred the imagination and ambition of the workers. Luxurious expenditure was flaunted everywhere. Productivity per head of the workers was advancing rapidly in certain important trades. Its progress seemed illimitable. It should surely be possible to banish poverty and insecurity of life, and to extend comforts and leisure to all!

Quite evidently there existed obstacles to the fulfilment of these aspirations. The power was there for use, but it could not be utilized. Attempts to use it were held up by gluts, collapses, and depressions. Hence there grew up, both on the side of capital and of labour, a definite practice of 'ca' canny', a policy of restricting output, lest enlarged supplies, with falling prices, should lower profits and wages. We are not called on here to discuss this tangled issue of industry and finance, but only to note its effect upon the mind of wage-earners.

In considering the related questions, "How far are the claims of labour equitable?" and, "How far are they practicable?" we are bound to take into account what we term the new mentality of the workers. And yet, as soon as the complexity of industry is adequately realised, the futility of thinking and speaking of a single working-class mentality is obvious. Though there exists some sense of solidarity, of sharing the same fate, among workers in various grades and occupations, there is also a wide diversity of attitude towards jobs.

Some productive activities, as we recognise, are liked on their own account, and their products might be got by society without any other cost than the 'keep' of the producer. William Morris feigned an earthly Paradise in a community

of men and women whose diverse tasks, inclinations, aptitudes, and opportunities, led them by sheer delight in personal activity to produce so much food, clothes, housing, furniture, and other goods, that anyone might help himself freely from the common store. A manifest extravaganza, but yet suggestive of large human economics which the better discovery of human aptitudes and greater freedom in the choice of work might effect.

§ 3. A good many sorts of work can carry enough intrinsic interest to be 'costless' in the human sense. The lamentations over the replacement of manual skill in the arts and handicrafts by the machine are often overdone. The limitations and monotony of most hand-labour stifled interests, the elements of creative activity and personal initiative playing too small a part to compensate the toil. For even skilled manual labour, save in the most primitive communities, has been so subdivided as to carry little of that satisfaction of the artist or craftsman who makes a complete thing. On the other hand, there is considerable scope for interest in the machine economy, outside the mere 'tending' processes. The care of machinery, its adjustment and repair, the work of skilled engineers and overseers, the increasing proportion of employment in processes of testing, costing, marketing, play a larger part in many manufacturing industries. Transport and distribution, which continually employ a larger proportion of the workers, contain much scope for personal skill and judgment in detail, and lie outside the 'drive' of the machine.

Such elements of interest in 'the work itself' are usually disparaged. Work calling for very little technical skill may be interesting if it carries detailed variety, while work of considerable skill loses its interest when carried on for a long working day. Here emerges an alternative choice between a short work-day and a varied work-day. When possible, change in work has a double value. It lightens the

human cost to the worker, and it raises his productive efficiency. Some employers are discovering that it does not 'pay' to keep a worker too long on the same job. But variety in the work itself is not the only condition that can make work interesting. The social circumstances which attend it often count. Contact with numbers of different persons and incidents is extremely interesting to alert minds. Policemen, and to a less extent postmen or 'bus conductors, have opportunities to get a knowledge of life and character which greatly alleviates routine. Partly for this reason, domestic servants prefer work in hotels to work of the same kind in private houses. There are more personal contacts.

Again, routine work, uninteresting in itself, is preferred by some workers. It takes less out of them, if it does not involve heavy physical toil or close mental concentration. Many people do not want to think, or to take responsibility. They are willing to submerge their private personality for so many hours a day in obedience to easy orders, in order to conserve energy for leisure interests or home life. A certain amount of routine monotonous work does not 'cost' much. Here is the chief argument for a shorter work-day. It involves less human cost, and it leaves more time for the utilisation of all economic goods and other non-economic opportunities. Consider what hard plodding work men will do for exercise or 'sport', and it becomes apparent that a good deal of common labour in the form of digging, carrying weights, laying bricks, even tending machinery, might be got 'gratuitously'. No rearrangement of industrial society could, of course, get all the necessary work done by this strictly 'costless' method. There are many sorts of work so disagreeable that nobody would undertake them except for pay. And for most other routine work, even under shorter hours, rest intervals, and other humane conditions, a heavy net cost is involved.

Heavy human costs, in terms of health and personal safety

in many occupations, notoriously figure low as economic costs. Ignorance makes workers indifferent to many health conditions, while risk-taking may even figure as an attraction. Soldiering is a crucial instance, though other motives here temper the zest for danger. But as education in hygiene becomes more general, and public policy concentrates more strongly upon health conditions, the human case against many sorts of labour, done under conditions that seem unavoidable, will concentrate more and more attention on reforms of technique, upon the one hand, reforms of consumption on the other, with a view to the elimination of the sorts of work that carry these costs.

The most important practical reforms in the reduction of human costs lie in altering the relation of the machine-worker to the machine, so as to make him the master instead of the servant. The right rhythm in work is now recognised as a prime element in easing costs. There is sometimes a truly mortal conflict between the rhythm of the machine and the rhythm of life. Machine-rhythm and speeding-up often extend far beyond the direct processes of machine-tending, so as to dominate the atmosphere of the 'works'. Half-consciously the resentment of the modern worker against the capitalist system is in no small degree a personal craving for freedom as to pace and method in the performance of his work. It is not true, however, as Ruskin, Edward Carpenter, and other humanist protesters assert, that of necessity the machine must mechanise the worker, destroying or reducing his humanity. I doubt whether the professional chauffeur is a less human, less interesting, and less intelligent type of man than the driver of horse vehicles, because the thing he drives is a mechanism, not an organism.

§ 4. From the standpoint of occupational and other attractions and incentives, the difference of city and country deserves separate consideration. In every developed coun-

try a selective suckage of population from rural into city work and life has taken place. The human significance and value of this distinctively economic movement are difficult to assess. Vital statistics have generally given a clear condemnation based upon the higher adult death rate in the city. Racial degeneration was predicted as the inevitable result of transferring the more energetic and adventurous stocks from the comparatively healthy life and work in the country into the physically costly life of the city. The great improvement in the sanitary conditions of cities, and in particular the progress in maternity and child welfare, have, however, greatly reduced the force of this indictment, though it may still be maintained that the relative or absolute decline of rural populations, due to the economic and social attractions of the town, involves some loss of human values. Whether, or to what extent, this be true, must depend chiefly upon our valuation of the economic and social advantages of town life for varying types of 'human nature'. For countless generations the animal man in his physical and mental make-up had been selected and modified into a vital adjustment to a substantially unchanging material and social environment. In a very few generations the majority of these animals in most 'civilised' countries are called upon for an effort of quick readjustment to a very different and a very mobile environment that seems likely to be putting an excessive strain upon the human capacity of adaptation. But since man is primarily differentiated from other organisms precisely by his superior adaptability, the danger of town life and work cannot be taken for granted. The new work of adaptation it calls for may so stimulate and nourish the adaptive faculty itself as to enable a mutation or conversion to take place involving no serious loss or damage. Or it may be urged that the selection of migrating men and women means that the stock which is more adaptable moves into town life and work while that which is less adaptable re-

mains behind. A considerable validity must attach to this contention, alike as regards migration into towns and into other countries. Nor is the fact that, even with the improved hygiene of cities, the duration of life is greater in the country, conclusive as a test of human value. If "better fifty years of Europe than a cycle of Cathay", the greater intensity and variety of conscious life for townsmen may compensate the slightly longer duration of rural life. But, on the other hand, it cannot be assumed that a higher human value attaches to city life for all sections of its dwellers because they have 'chosen' that life in preference to the other. For, as regards many of them, the choice is not a free one. Economic conditions, as for instance in modern England, may have let down employment in rural industries in volume, in regularity, or in remunerativeness, so much as virtually to compel migration into the towns. But even where choice has been more free, and young labour has quitted the village life for the higher pay and more exciting life of the city, we cannot assume a net human gain of values. The strain of nervous adjustment to the pace of a changing environment may inflict some serious injury to the individual or the stock. If it be true that the prime functions of good digestion, wholesome exercise, and sound sleep, are impaired by city life, it is difficult to believe that the intenser and more various consciousness of the city dweller can be an adequate compensation. The attractions of town life to youth may be no guarantee of gain, even if the current valuations be accepted as a reliable index of human welfare. If what we call the intrinsic interest of work be estimated, the scale would hardly turn in favour of town occupations for the great majority of workers. The organic nature of crops and herds in relation to varieties of soil and climate, which gives character to agriculture and most rural occupations, may have a permanent superiority of interest over the more routine and mechanical pursuits of town economy.

This may, as we recognise, be offset wholly or in part by the higher pay, shorter hours, greater sociability, exhilarating recreations, and other advantages of towns. But the loss of man's easy, regular contact with nature in its less tamed forms and less regulated moods, will remain a debit in the human balance, both on the side of work and life. It would, however, be unfair to register such a judgment without important qualifications. If the town worker be progressively released from the domination of the machine, and increased leisure, recreation, and facilities of movement enable him to take an intelligent and pleasurable interest in country life and even to prefer it for his residence to the crowded city street, he may get the best of both worlds.

Again, the new invasion of agriculture, rural industries, and village life, by modern machinery and power in the shape of steam-ploughs, electric tractors, etc., the spread of telephones, radio, automobiles, cinemas, may do more to alter the lot of men and women throughout the habitable world than any other happening. To live in the country and to work in the town is one way of reconcilement. To 'civilise' the country for purposes alike of work and residence is another way. The two, indeed, permit of various grades of union or compromise. At any rate, the sharpness of the older divergence has disappeared, and the result will be to give a greater and a freer choice to the great body of workers in their occupations and their ways of living. If the economic compulsions and restrictions which have hitherto cramped effective liberty of choice are removed, and positive opportunities of reliable information are open to all, we might reasonably hold that a sound natural selection will distribute the working population among town and rural industries on the basis of personal aptitudes and tastes. Thus, reverting to the familiar economic dichotomy, the human costs of production will be reduced, and the human utilities of consumption enhanced.

§ 5. The claim of workers to have a 'voice' in the control of the business, so far as conditions of employment are concerned, is perhaps a mild expression for the new attitude of labour towards the industrial system. Primarily it is a revolt against what is called the 'commodity' view of labour, which treats it as one among several requisites of production to be bought in such quantities as are from time to time required at a price determined by the higgling of the market. Now labour, as we see, differs from other marketable goods in that its delivery involves the subjection of all the other elements of a personality to the economic process. The claim for a 'voice' in the business is in the first place a natural self-protective measure, directed to secure those personal interests that are not formally included in the wage-bargain. It may, no doubt, be said with truth that the wage-bargain does take cognisance of the peculiar conditions of the delivery of labour, that wages, hours, and various legal and customary regulations and restrictions, are designed to take into consideration the human as well as the distinctively economic cost of labour. But, as we have already recognised, the wage-bargain makes no adequate provision for many of these human costs, even for the heavy cost of insecurity of employment. The workers' demand for a voice in management is, firstly, to be understood as a growing recognition of his sense of personality, and the need of its protection.

But a second stage is reached in the development of a sense of right or property in the business for which he is working as an integral unit. Legally the business belongs to the shareholders whose function is passive; actually the workers have a feeling that it 'belongs to' them, in that their lives are implicated in its working. They belong to it and so it belongs to them. This is not a clear thought or conviction: it harbours no confiscatory policy. But it involves a feeling that, as the management is primarily engaged in

conducting the business for the profits of shareholders, their deeper interests in its operation are liable to be a subordinate consideration. For them it is of vital moment that the business shall be so operated as to furnish regular employment at good wages and with other good conditions. But in order to ensure these vital interests of labour, its government must recognise that those interests must rank above the interests of the shareholders, in the sense that fair wages and good conditions are a first charge on the assets. So long as the government of business is entirely in the hands of the representatives of its capital, this security for labour cannot exist. Though it is urged that in great corporations, the power of shareholders is negligible and the directorate and management tend more and more to conduct the business in the spirit of a public service, giving due consideration to all reasonable claims of labour, intelligent workers do not readily acquiesce in this theory of benevolent oligarchy. They ask for some representation upon the 'controls', with full access to all sources of information which affect their interests, as a necessary safeguard of those interests. In effect, they seek to base the government of a business upon a proportionate representation of the vital interests involved. No doubt few among the workers adopt consciously this principle, but it underlies the whole movement of Trade Boards, Joint Industrial Councils, and other similar experiments in Europe and America. Starting as a narrowly protective measure of wage-earners, it moves towards a democratic government for businesses and industries, in which the different factors of capital, management, technical staff, and various grades of workers, shall coöperate in running business for their common gain. How far and how fast this reconstruction of the forms of economic structure may go depends chiefly on the application of the representative principle to various types of industries—a matter for experiment to settle.

The deepest moral value of this demand of labour for a share in the government of industry consists in the fact that it is an essential condition for the growth of the sense of industry as a social service. So long as the thoughts of a worker do not, and cannot, go beyond the near implications of his labour-bargain, and his sense of coöperation is confined to his trade-union, it is idle to suppose that the more general problems of our economic system can be rightly solved. It is sometimes contended that social good will cannot be created by structural changes in government. But this is not true, so far as these structural changes are themselves impelled, in part at any rate, by a sense of defective coöperation in the old structures. A double process of adaptation takes place. The movement towards these structural changes, inspired by dissatisfaction with friction, conflict, ill will, moulding the new forms, educates that very spirit of common purpose for which the new forms furnish suitable channels for fuller play and more conscious realisation.

There is, however, in this movement a danger. In the practical business world it is natural that ill will and conflict within the business and the trade should absorb attention, and that reform energies should be chiefly concentrated on securing good relations between capital and labour in these areas. But a reconcilement of the interests of the productive factors in the several businesses and industries, as we have recognised, by no means suffices to set the economic system as a whole upon equitable lines of social service. Harmony of capital and labour in a business, or a trade, may have its first result in enlarged product and lower costs. But if the fruits of this economy are distributed in profits and bonuses within the business, the current of good will is short-circuited. Indeed, there are many instances of trade combinations and cartels where capital and labour work together in unity on a policy of regulated output and control of markets, distributing in high dividends and wages both

the economics of good labour relations and of price fixing. This restricted harmony may prove inimical to the sense of social service and to the moralisation of industry as a whole. Shifting the area of conflict from the struggle of capital and labour (or employer and employed) within the business or trade to a struggle between the better organised and the worse organised trades, the sheltered and exposed trades, it may intensify the struggle.

The claim for a voice in the control of business, a representative government of the business, with a property in the shape of workers' shares and profit-sharing, may thus signify the substitution of a new stratification of interests for the older simple cleavage between capital and labour, without securing either industrial peace or a sense of social service. But the general approval accorded to the new business organisations, both in regard to their suppression of wasteful competition among the constituent businesses, and in regard to their constructive labour policy, is inspired by a just feeling that this movement, by eliminating many of the nearest and most personal grievances and hostilities, may liberate and educate a wider and more conscious sense of the solidarity and social value of the economic system as a whole, and may make it more feasible to regulate its processes by considerations of human welfare.

§ 6. Enquiry into the claim of labour to a 'voice' in the government of business, has led us into a wider channel of reflection, the whole of which, however, has a real relevance to our particular theme, the motives and incentives of the workers.

These large policies of reconstruction should all help to give reality to interests and motives that lie outside the immediate and insistent claims for personal gain. If security of employment and livelihood with some prospect of material advancement, was attained by better business and social regulations, the sense of the social utility, the func-

tional view, of work would undoubtedly come to occupy a place in the common consciousness which is precluded by the selfishness imposed by the present conditions of the struggle for livelihood.

How far is it possible, however, to look forward to an industrial order that can thus far incorporate the principle of 'distribution according to capacity for use'? Our brief survey of the mental attitude of workers towards their work does not seem to warrant a conviction that the principle is capable of close application. There are, indeed, many evidences that this equitable and human principle is gaining ground both in the higher ranks of salaried employment and professional work, and at the foundation of the industrial fabric, where it takes shape in the payment of a 'minimum', 'subsistence', or 'fair' wage, with a favourable disposition towards 'family allowances' as a formal or informal basis of differentiation. In these and other ways we perceive the 'functional' principle displacing or qualifying the 'acquisitive'. With the growth of public and quasi-public services, where security of employment and non-competitive conditions prevail, an increasing proportion of employees are coming under this more equitable economy. It is fair to conclude that over an even larger area of employment, this public service attitude of mind will humanise the incentives of employees, evoking some conscious sense of duty in the performance of their work, and some tacit recognition of the equitable conditions of their employment.

There remain, however, two stubborn obstacles to the general adoption of the principle. As in the higher grades of business, we recognize that there are types of men whose sense of social service is too feeble to allow them to forego the large prizes which their skill or enterprise enable them to secure, and that it may be desirable to compromise our distribution principle to meet their case, so with the wage-earning classes. Here, too, there may be workers, or even groups of workers,

occupying key positions in some industry, or possessed of some training with a high scarcity value, who will reject the principle of payment according to needs, or capacity for use, and will insist upon higher scales of remuneration. Until education and enlightened public opinion are strong enough to eradicate, or at least to moderate, these selfish claims, it will be necessary for society to discover and to practice an economy of concessions. Nice calculations for such payments may not be possible, and it may be best to err upon the side of liberality, leaving any excess to be redressed by progressive taxes upon income and inheritance.

The other obstacle relates to what we may call the lowest grades of work. It is idle to ignore the basic fact that most ordinary routine manual or mental work, necessary to maintain the efficient working of our present economic system, is disagreeable in its nature, amount, or conditions to those who perform it, and that much of it carries real costs of a heavier kind, and that it is injurious to the personal welfare of the workers. Common costs are long days of tedious or tiring work of narrow routine, using certain muscles or nerves excessively and atrophying others, often in bad air, sometimes with danger to lungs, heart, or limbs. To well brought up persons of the upper classes most wage-work would seem so intolerable, as a condition of life, that no payment would compensate the personal damages. Society in the past has been able to get most dirty work dirt cheap, because of the poverty, ignorance, and brutality of living among large grades of humanity. The heavy human costs of such work were hardly recognised by those who bore them as part of a customary burden. But as workers come to eat of the tree of knowledge, gain self-respect, decent standards of living, and the element of personal culture, these human costs of common toil become conscious. It will become increasingly difficult to get the more 'costly' kinds of work done, even for high wages and short hours. Some of it can be dispensed

with. Oil or coal-dust comes to replace the costly work of ship stoking, and in many toilsome tasks automatic machinery takes over the human costs. Where heavy, risky, or tedious work remains, the rising price demanded by the new consciousness of the workers brings many alleviations. International conventions regulating hours of labour, and prohibiting dangerous processes in chemical and other trades, mark a new era of economic enlightenment.

Such reforms are not infrequently brought up against serious obstacles, due to long established methods of consumption. Improved conditions of pay and hours in heavy or disagreeable work are liable to be found 'impracticable', in the sense that the product of such work cannot be marketed so as to 'pay its way'. Here is part of the tragedy of the British coal mines. It comes to this, that, as the general body of the people becomes more educated, more civilised, in the advanced countries, it will become more and more difficult to get some essential services performed except by an exaction of rates of pay which bear no proportion to the 'needs' of the recipients. This thought or feeling has always underlain the objection of the well-to-do classes to any real measure of popular education. It will make the workers 'too proud to work', too particular as to the kind and amount of work they will do: so wages must rise to heights that may seriously curtail rents, profits, and other sources of surplus incomes. It is already evident that considerable changes are taking place in the proportionate rates of pay for skilled and unskilled, interesting and dull, respectable and unrespectable employments, the less desirable rising towards or beyond the level of the more desirable. The time may come when navvies, sewer-cleaners, bus-conductors, booking clerks, may in general get incomes exceeding those of doctors, teachers, and ordinary 'managers', by compensation for the net human costs of work found to be indispensable. Here is another violation of the 'needs' principle of distribution.

§ 7. This general survey enables us to realise the main directions in which the demands of our economic system seem to conflict with the demands of 'human welfare'. It raises the following questions.

(1) In what ways and to what extent can the human cost of industrialism be reduced?
(2) How can intelligent interest and a sense of social service be got to function more effectively as economic incentives?
(3) How far can productivity of industry be raised without raising human costs, by better organisation and technique?
(4) Can this increased product get better distribution?

The whole problem of economic reformation in the light of human values is contained in these questions, to which our survey enables us to give the following tentative replies.

(1) Reduction of human costs depends, partly, upon improvement in the technique of industrial processes, the substitution of mechanical for human energy in dull, heavy, routine processes, better protection for life and health in the factory or other work place; partly, upon the better apportionment of the various sorts of work among members of a community. That the heavy muscular labour should be performed by strong, able-bodied men, and that none of it should be shifted on to feeble men, women, or children: that young persons, before entering on industrial life, should go through a searching and an educative process, directed to discover and improve any special aptitudes, and to place them where these abilities may be most usefully employed: that information as to economic needs should be so widely accessible as to give the freest opportunity to all to work along the lines of personal choice—such economics are so obvious as to require no lengthy exposition, though they are very far from being adequately realised in any existing national arrangements. Among reformed 'conditions of labour' the shorter work-day ranks highest as a cost reducer, provided it is not attended by acceleration in the pace of

work. For, though this policy may signify some reduction per worker *per diem* in output, this loss of objective wealth might be compensated fully from two sources: (a) greater regularity of employment, when 'driving' and spurts with 'overtime' were made impossible, and where absences from ill-health and over-strain were less frequent; (b) the superfluous labour engaged at present in the largely wasteful competition of distributive processes could be drawn into industry to make good any deficiency of productivity from a shorter work-day and abolition of overtime. Such a regularisation of employment and productive efforts would greatly diminish the net human costs of industry.

(2) Though highly subdivided labour is intrinsically uninteresting, under a shorter work-day education could do something to bring home to the worker its social value and significance. Many years ago the Swiss coöperative societies set an example, since followed in other countries, of the practical instruction of their employees and members in the history of the goods they supplied, exhibiting specimens of the different raw materials and linking up the diverse processes by which they passed into consumable commodities. Carried on as an integral part of the 'welfare work' which is helping to humanise industry, this education could do something to redeem the narrow unmeaning drudgery inseparable from much of our subdivided labour.

Questions 3 and 4 raise the intimately related issues of higher productivity and better distribution. Though these issues transcend the labour problem in their application, they there find a particular significance in the controversy as to which of the two desirables takes precedence in time. Statisticans assure us [1] that even in Britain, the wealthiest European country, the whole income, equally divided among the people, after due provision for savings and public

[1] Cf. Stamp, *Wealth and Taxable Capacity.*
Bowley, *Division of the Product of Labour.*

revenues, would not suffice to furnish all of them with a comfortable livelihood. It is, therefore, urged that labour must *first* help to raise the volume of production and *then* can claim its increased share. To this labour economists rejoin to the effect that better distribution, placing a larger proportion of the general income in the possession of the workers, is a prime condition to any real increase of productivity. It operates psychologically to raise the moral efficiency of the worker, the will to work, and economically by furnishing a larger and more reliable market by means of the rising standard of consumption among the workers. They point to the policy of Henry Ford: first raise wages, increased efficiency will follow, bringing greater production, lower prices, larger consumption. The increased productivity from higher wages does not, however, come chiefly from the raised efficiency of the wage-earners, but from the stimulus to the management to find new economies of technique, organisation, and marketing, so as to enable them to earn profits on a higher wage-bill. But while this problem has its place here as relevant to the claims of labour, its wider aspect belongs to the enquiry into the interactions of production and consumption which we enter after our analysis of subjective costs is completed.

# CHAPTER IV

## THE SUPPLY OF CAPITAL

§ 1. Thus far we have addressed ourselves to the consideration of the chief personal activities directly engaged in the production of wealth, regarded from the standpoint of the human costs and satisfactions of those who engage in these activities. The artist, the inventor, the manager, the engineer, the financier, the various grades of brain and manual workers who give out productive energy have been brought under brief survey, with a view to considering how far their efficient services are compatible with proposals for running industry on an equitable basis.

It remains to put to the same test the function of the capitalist, the man who gives his title to the modern economic system. In theory, and to a large extent in practice, the dominating motive in business is the desire of the investor to get gain for himself in return for the capital he supplies. The land, buildings, machinery, materials, and goods, together with the good will, that constitute the fabric of the economic system are all his legal property: they have been brought into economic existence and are operated as business units in order to pay him dividends. The regular, sufficient, and, in a progressive society, increasing supply of this capital is essential to the working of the system.

It is manifest that this assertion of the permanent claim of capital is liable to involve some confusion of thought and some conflict in action. The ethical or humanist view is that the economic system exists in order to utilise man's productive energy for the satisfaction of his human needs. How

far is this compatible with the view that each business unit in this system exists in order to pay dividends to its owner? This conflict of meaning and of morals has always in some degree bred a feeling or opinion in the worker that he was the sole producer, and that what went in interest or profit to the owners of the capital or land really belonged to him. This feeling, or opinion, unless theorised and propagated, figures very dimly in working-class consciousness, but at all times it has been ready to respond to strong suggestion. This is only natural. The worker daily realises that he and his fellows are giving out personal energy which changes material into something different and more advanced: he does not realise that the capitalist is 'doing' anything, nor in his sense is he. He is an 'idle capitalist'. What he has done in the past is to save, and even the savings he makes, when seen in the concrete form of machinery, plant, etc., have been made, not by him, but by the 'workers'. This view that the capitalist does not do any work for the dividends he gets is mixed up in the working-class consciousness with the feeling that, in buying their labour, he is in an unfairly advantageous position, and so gets it cheap. Finally, because he can buy labour cheap, he can sell the product profitably, and out of the profit can, with a personal sacrifice that is theirs, not his, make savings and so increase his ownership and use of capital. This notion of the capitalist as an oppressive bargainer no doubt goes back to the times when there was virtually no use for productive capital, and when usury was the principal employment of men with money to spare.

The condemnation of interest on the ground that 'money is barren', uttered by Aristotle and endorsed by a succession of moralists and philosophers until the close of the Middle Ages, did not seem unreasonable when those who had more money than they needed for spending kept it idle in a chest or hide-hole. To extort interest for lending to a neighbour

what you could not use yourself was an obvious offense against reason and morals. All you were entitled to demand was security for its return when you needed it. What the borrower did with it was his concern, not yours! The doctrine of the Church, the paramount authority when Economics was a branch of Ethics, is excellently summarised as follows by Mr. Tawney.[1] "To take usury is contrary to Scripture; it is contrary to Aristotle; it is contrary to nature, for it is to live without labour; it is to sell time, which belongs to God, for the advantage of wicked men; it is to rob those who use the money lent, and to whom, since they make it profitable, the profits should belong; it is unjust in itself, for the benefit of the loan to the borrower cannot exceed the value of the principal sum lent him; it is in defiance of sound juristic principles, for when a loan of money is made, the property in the thing lent passes to the borrower, and why should the creditor demand payment from a man who is merely using what is now his own?"

Economic historians have traced the interesting moral manœuvres by which the rising needs of the mediæval business world evaded the spiritual and legal condemnation of usury, the pleas of *lucrum cessans, damnum emergens* and the rest, until the organised demand from mercantile projects, on the one hand, and from the extravagance of rulers and courts for wars and other costly enterprises, on the other, gave a precarious status to financiers. But always there clung to these financial operations the element of 'squeeze', the taking advantage of some emergency, enabling the lender more or less to dictate his terms. The money lender was thus always visualised as the one who 'grinds the faces of the poor'.

§ 2. The underlying element of truth in this early capitalism still survives to some extent in the normal business processes of to-day. Though competition between capital-

[1] *Religion and the Rise of Capitalism*, p. 43.

ists greatly mitigates the harshness of the process, it still remains true that when a man with plenty of money is bargaining either for the goods or the services of another man with little or no money, the former is likely to get 'the better of the bargain'. Behind all wage-bargaining, individual or collective, lies the stern fact that it is more vitally urgent for the worker to sell his labour than for the 'capitalist' to buy it.

It is needless to expatiate upon this familiar theme. But as the general attitude of mind of the workers towards those who wield the power of capital is an important factor in the moral reformation of industry, this initial feeling that 'capital' is an oppressor must not be lost sight of. It can, indeed, only be eliminated by reforms in 'capitalism' itself, directed to put capital in its proper place, not as sole master and owner, not as an idle tax and task-master, but as a coöperant agent in an organic process, to be remunerated according to its needs. When Socialism represents itself as the enemy of Capitalism, this does not signify that socialists contemplate a state of industrial society that can dispense with capital, or with the processes which furnish it, though their prophets frequently ignore this issue. Indeed, it is quite evident that a completely socialistic society would have to make careful and exact provisions for the supply and apportionment among its several industries of a fund of capital adequate to meet anticipated needs of future consumption.

The distinctively monetary aspect of saving and of capital investment often confuses the mind, even of economists, as to the substance of the proceeding. In its 'substance' saving does not mean either abstinence from spending or putting money in a bank, or buying stock. From the standpoint of the economic system saving means stimulating the productive resources of industry to produce capital-goods, i.e., machinery, plant, power, raw materials, semi-manufactured goods, and reserve stocks of fully manufactured goods. The

productive resources of the community, so far as they are utilised, are engaged in serving three purposes. First, the production of consumable goods and services which are currently bought by consumers and applied to their personal enjoyment; secondly, the maintenance of the various forms of concrete capital in their due proportions; and thirdly, the enlargement or improvement of these various forms of capital with a view to an increased volume of consumption. The entire real income of a community is applied in these three ways: consumption, replacement, enlargement of capital; the monetary operations by which this is done are spending, replacement, and saving. In a given condition of the arts of industry a right proportion exists between these three funds or activities as wholes, and a right apportionment among the different industries. Though the arts of production and consumption are intimately interacting, so that any changes in the modes of consumption will affect both the quantity and the quality of the capital and labour employed, while changes in production will sensibly affect both quantity and quality of consumption, the discussion of this issue is conveniently deferred. At present it is best to confine ourselves to the consideration of the motives and methods by which the necessary and desirable 'saving' is conducted.

§ 3. The present method of stimulating and applying savings is in its general outline familiar to all. The monetary saving fund, the surplus of the annual income after expenditure upon consumption and provision for depreciation are accomplished, is provided, partly by corporate, partly by individual investment. Under corporate savings is included (1) capital outlays of revenue by governments, central and local, on productive services, whether of a remunerative or a non-remunerative character;[1] (2) the

[1] A difficulty here arises where public capital, obtained by taxation or otherwise, is employed in producing goods or services which, like

accumulation by corporations and other businesses of undistributed profits in the shape of reserves. In Britain and in the United States, as indeed in all the most advanced industrial nations, this type of saving is the main source of new funds for the development of industry and trade.[1]

The essential importance of these forms of corporate saving lies in the fact that a corporate policy is not actuated by the same motives, or directed to precisely the same objects, as private individual saving. This is manifest in the case of public capital, where the benefit of the community and not the future remunerative character of the investment is the guiding principle. But, even in the accumulations of reserves by business corporations, a policy is pursued by the directorate which often differs from that which the individual shareholders would pursue, were they consulted, or exercised their individual control of the share of profits which 'belonged' to them. The tendency of a prospering company is to put to reserves a larger share of profits than would be represented by the individual savings out of enhanced dividends, had the profits been all paid to the shareholders.

Individual savings take two forms. When a one-man or one-family business is carried on, the tendency is to put back into the business any excess of earnings over current personal expenses, allowance being made in good times for some improvement in standard of living. The small business man, farmer, trader, manufacturer, tries to improve his plant, increase his holding, enlarge his stock, and these im-

free education or hygiene, are not market-values, and are not accounted part of the national income. It is, however, manifest that for any sane economic enquiry, the real economic income of a nation must not be considered to be reduced when a public free education displaces a private school system, and when public medical aid, through salaried officials, displaces private medical fees.

[1] *Britain's Industrial Future* estimates that of the total national savings (including foreign as well as home investments) about two-fifths was provided in this way. The estimate for the United States is at a somewhat higher figure.

provements constitute his savings. Even when fairly careful books are kept, it is not easy to estimate with precision the amount of such saving, and among shop-keepers and other small traders bookkeeping that clearly distinguishes trading profits from wages of management is extremely rare. But as large corporate undertakings take an ever larger place in the economic system, individual savings for investment play an increasingly important part in furnishing capital for such expansions of existing enterprises as are not provided out of their reserves, and for launching new ventures. From the same source, individual investment, proceed also large sums deposited in banks which help to finance trading operations, and still larger sums which are loaned to public bodies for their undertakings. This individual saving-fund flows into home or foreign enterprises, following in general the line of highest interest for least risk.

§ 4. The part played by bank credit in the provision of capital needs special consideration. So far as the loans, overdrafts, or other provision for financing trade, are confined to lending moneys that represent the savings of depositors temporarily placed at the disposal of the banks, the procedure is quite simple. For these savings are part of personal incomes received in respect of productive services rendered by their recipients, or the productive fabric which they own. Since the saving process must be regarded as a continuous one, it signifies that a quantity of capital-goods is continuously produced as 'real savings' to correspond with the monetary saving that is going on. The true function of the monetary saving is to secure liens upon the 'real savings' so as to utilise them for further production of wealth. The monetary savings will normally be directed to purchase those forms of the new capital which their owners desire to possess and use. These purchases of capital are usually performed by purchases of stocks and shares. But some of the monetary saving-fund does not thus directly attach itself

to capital goods, but is temporarily deposited in banks, awaiting some opportunity for profitable investment. While it is in the bank the bulk of it is available for short-term loans, or other advances, to traders. This means that the bank hands over to these traders the use of a portion of the real savings, the new capital-goods, for which the owners of the money-savings have no immediate use. The banks, in thus helping to finance trade, enable these traders to purchase materials and to supply consumable goods (food, clothing, etc.) to workers, which otherwise they could not have got possession of and utilised for furthering production. The point is that, in respect of these bank loans, real savings in the shape of capital goods exist and are made effective for production.

But, when banks make advances to traders of credits not covered by the actual money owned by the banks, or deposited by consumers as savings from personal incomes, the procedure is less simple. This is the problem of bank-made credits. As they do not originate in incomes paid for productive services rendered, no capital-goods can be said to exist in respect of them. If, therefore, as is the case, they are utilised by the traders to whom the banks assign these credits, to get hold of supplies of materials and to hand over food and other goods to wage-earners, they can only effect this object by competing with the real saving fund for the purchase and utilisation of the new capital resources which the real saving public has made available. By increasing the quantity of money applied to the purchase of new capital-goods, they exercise two influences. When the new capital-goods consist of raw materials, semi-manufactured goods, etc., the increased demand for them will raise their price and will withdraw some of them from the purchase and use of the 'real saving' public to the purchase and use of those who receive and apply the bank credits. A second effect will be to raise the price of the stocks of foods and other

consumables, and by reducing the rate at which they would have been consumed by the normal expenditure of the moneys paid out in ordinary incomes, to hand over some of these stocks to be consumed by the workers in the businesses to which the bank credits were given. This is sometimes represented as causing these stocks of consumables to figure as additional capital, in the sense that the possession of the bank credits enables the recipient businesses to get them away from those who would otherwise have bought and consumed them, and to hand them over as 'real wages' to the additional workers whom they are enabled by the credit to employ.[1]

So, it is argued, the total volume of 'savings' is increased by an encroachment upon 'spendings': food, clothing, etc., which would have been bought for consumption out of incomes already earned, are now bought out of wages paid to additional workers from the credits supplied by the banks. Whether this process, the substance of which consists in reducing the real wages, or incomes, of the rest of the community, in order to employ productively an otherwise idle body of workers, can rightly be termed 'saving' or 'creation of capital', is a nice matter of definition. This process is sometimes termed bank inflation and results in the transfer of ownership of real wealth from its producers to the banks who appear to have contributed nothing towards its production. This creation of purchasing power by banks is commonly approved on two grounds, first, that it assists production by

[1] Mr. D. Robertson has developed this thesis of the part played by bank credits in his *Banking Policy and the Price Level*. The thesis is thus conveniently summarized by Professor Marco Fenno in the *Economic Journal*, March, 1928 (page 126): "The banking system, in fact, expanding credit, increases the daily stream of money at the business men's disposal, and empowering them to compete with the main daily stream of money for the daily stream of marketable goods, returns them a part of the latter, depriving the residue of the public of consumption which they would otherwise have enjoyed and engendering a general rise of prices."

enabling certain productive plant and labour to function productively which without such credit must have stood idle; secondly, that by increasing the demand for and raising the prices of the capital-goods that represent real savings, it imparts a general activity to the trades producing these capital-goods and helps towards a revival of general trade. How far the stimulus thus imparted by bank-made money can usefully reinforce the stimulus and direction given by ordinary processes of saving, is an entangled problem which we here can hardly hope to solve. It must suffice to say that a *prima facie* moral case is repugnant to the supposition that it is socially advantageous that bank-made money, involving no real saving from income, should possess a power of purchase and a direction of production equivalent to that power and direction which emanate from the ownership of monetary savings invested in capital goods.

§ 5. The most elaborate mechanism in the economic system is that which provides for the collection and distribution of the general investment fund. While many large flotations of stocks and shares in old and new enterprises are still effected by direct appeals of corporations to the investor, trust companies, banks, and general financiers play a growing part as intermediaries in handling and apportioning to industry the flow of new capital available from individual investors.

The whole of this apparatus of saving has its social economic significance in that it determines how much of the available productive power of the community shall be employed in increasing the quantity and improving the quality of capital-goods in the various industries, and how much in placing increased quantities of consumable goods in the immediate possession of consumers. For only thus can we get a clear grasp of the cost and utility of saving, alike for the individual and the community. Eliminating such 'saving' as is merely transfer of consuming power, in that it

is lent to other individuals to enlarge their personal expenditure, or to repay previous excesses of expenditure over income, and keeping our eyes fixed upon 'real saving', viz., increases of capital, we perceive that such saving essentially consists in paying people to make non-consumables instead of consumables. To understand what happens, however, the time element must be studied. Producers of non-consumables, the capital-goods which represent the annual savings, do not wait for savers to set aside sums of money out of their incomes, in order to hand them over to companies in response to prospectuses, the companies then using these savings to order capital-goods to be made. The new capital-goods, the real social savings, are being continuously produced in anticipation of the 'demand' for them when the money savings come to be applied. Or perhaps it would be more accurate to say, that the production of the new capital-goods proceeds concurrently with the setting aside of current personal income to make the money saving that will purchase them. An effective increase of the industrial system from the capital side requires the prevision and provision of three distinguishable sorts of capital, the new plant, the increased supplies of materials for the different productive processes, and a storing up of foods and other consumables to supply the initial needs of the fresh labour taken on to work with the new capital. The anticipation or calculation of the amount of new capital that will be required for these three uses in the various branches of production is the most delicate and difficult operation which a distinctively individualistic system is called upon to conduct. That immense skill, thought, and informed imagination, are put into this forecasting of capital requirements goes without saying. But it is also likely, or even certain, that great defects and waste occur in its performance, attributable, partly, to insufficient knowledge, partly, to the opportunities which the system affords to skilled performers of making money by

misrepresentation and other financial malpractice. Owing to these notorious defects the flow of new savings is not so fully utilised for furthering the increase of wealth as it might have been. Regarded from the social standpoint of human values, this system furnishes no sufficient guarantees for the social utility of new investments as distinct from their interest-earning capacity. Savings which go into financing American 'boot-legging', or into the supply of arms to some bellicose government, rank with savings that go into improved housing of the workers, or the irrigation of rich undeveloped lands, each valued according to the rate of interest it fetches.

§ 6. Here, once again, we are brought up against our root problem, the valuation of the 'desired' by the standard of the 'desirable'. In the current method of providing new capital, by appeal to individual investors, there is no security that industry shall be run in accordance with the enlightened will of the community, so far as such a will exists.

In fact it is precisely in this, the most intricate and essentially secret procedure of our economic system, that we might expect to find the widest divergencies between individual economic conduct and community needs or welfare. And we do find it. Not only is there no security for the best utilisation of savings and new capital, but there is no security that the right proportion of productive resources shall be applied to create new capital and to create consumables, or that the distribution of new capital beween the different employments shall be economically sound, in the sense of distribution according to needs.

These defects in the saving process and the utilisation of new capital proceed from failures to make the economic costs and utilities of saving correspond with the equitable principle of minimising human costs and maximising human utilities. This broad assertion, of course, needs justification from a closer enquiry into the incentives of individual saving.

A Crusoe, so far as he could assess his needs and forecast his fortune, would express his forecast in an accurate adjustment between his labour given to each sort of production for immediate enjoyment, and his labour given to making tools, amassing materials, or preparing ground for making various improvements in his future standard of living. He would weigh closely present against future enjoyments, present costs or sacrifices against utilities. A conscious socialist community, if workable, would do the same, deliberately setting a given proportion of its labour to making new forms of capital instead of making more immediately consumable goods. It would do this successfully just in so far as it could forecast the future and provide for it. But success in doing this demands a conscious unity of plan and purpose. Now it is sometimes said that the money market constitutes such a unity of government, gathering financial resources where it can get them at lowest cost, and distributing them where they will be most productive. And it is true that some conscious government is thus exercised. But it is a poor substitute for the centralised economy of a Crusoe, or of our conscious socialist community. For, apart from the fact that large masses of savings, corporate resources, and private business savings, do not come under this financial government, there is the far graver defect that harmony of interests does not exist between this financial government and the practical government of the units of industry. The apportionment of new capital, the free saving fund, is in the hands of the same financial institutions that control the operations of the markets for all existing securities.

Although there is sometimes ascribed to them the fiction of a public trust, the utilisation of capital funds for the healthy development of the economic system, this 'trust' is only likely to be fulfilled in so far as the profits of financial operations accord with the best development of industry. For financiers, like other business men, are primarily out

for their own hands: their 'trusteeship' of the public interest, so far as it exists, is not a conscious motive and is merely incidental. There may be some dramatic exaggeration in Veblen's picture [1] of the relations of the 'price system' to the practical conduct of business, but it is undeniably true that it may pay the financial control to limit productivity and raise, or maintain, prices, where the engineer, or manager, would expand business, reduce prices, and serve the consuming public. It would be foolish to maintain that there exists, or is likely to exist, among the men who control finance, a sense of public service, or trusteeship, strong enough to prevent them from preferring the profitable interests of themselves and their clients to the interests of the general body of the people.

§ 7. The absence of any conscious social direction in the accumulation and utilisation of capital is more largely responsible for the economic and human damages of cyclical trade fluctuations than any other cause. For the attempt to put into industry as a whole, or into certain parts of industry, a larger amount of capital-goods in the shape of plant, raw materials, etc., than are needed, and can find full regular employment in producing the quantity of consumable goods which can be and are marketed at remunerative prices, is the prime cause of the congestions and stoppages of industry which usher in periods of depression and unemployment. This 'un' or 'under' employment of capital and labour for considerable periods in most of the main industries, especially in those engaged in producing fundamental and instrumental goods, is simply a register of the excess of productive power of capital over the effective demands of the consuming public.

Putting aside the subsidiary causes of inflated or deflated credits, of confidence and collapse of confidence in the minds of business men, which are the necessary consequences of

[1] *Engineers and the Price System.*

the real maladjustment between producing and consuming power, we come to the rock bottom of the situation. The failure of consumers regularly to take out of the industrial system the full volume of consumable commodities it is able to supply, is admittedly due, in the first instance, to a deficiency of purchasing power in the hands of would-be consumers. The recognition of this obvious fact sets to work a host of money-spinning theorists, who want the State, or the banks, or somebody, to put out more money in periods of depression, and to see that it gets, if possible, into the hands of consumers. In truth, however, there is not at any time a lack of power to purchase all the commodities that are or can be produced. For at the various stages of their production there is distributed in wages, rents, interest, profits, and salaries, enough money to purchase all the goods for the production of which these 'incomes' are paid, if that money is regularly and without delay applied to purchase them. These 'goods' include not only consumable but capital goods, for, so far as employment goes, it makes no difference whether the 'effective demand' be for consumables or non-consumables. But, if there be any economic influence inducing the purchase of more capital-goods than are economically needed to produce the volume of consumable goods (reduced as it is by this very process of attempted over-saving), the over-production, stoppage, unemployment, shrinkage of incomes, which are the features of depression, become inevitable. In a given condition of the arts of industry and of consumption there exists an economically right proportion between the share of the general income that can be spent and that which can be saved. A certain proportion can advantageously be applied to capital in order to provide against increased future consumption. But the common notion that, because any individual can save any proportion of his income he chooses, a whole economic society can do the same, is a manifest delusion. An economic society may un-

der-save, in the sense that it does not provide enough new capital to supply the increased quantity of commodities which could have passed into consumption, had they been produced. It may over-save by providing so much new capital that it cannot function fully in turning out commodities for which there is a market. With a proper adjustment between spending and saving every enlargement of supply would be taken off in demand at a price which would maintain the full current of supply.

No juggling with credit can cure the maladjustment which periodically chokes the channels of industry and stops production.[1]

This waste, like other economic maladies, is due to maldistribution of productive costs and consumptive utilities. It arises directly from a failure of the economic system to put a sufficient proportion of the general income, or purchasing power, into the hands of those who would use it in demanding consumables, and too large a proportion into the hands of those who, after supplying all their urgent or conventional needs, have a large margin for purchasing capital goods.

§ 8. But it will rightly be urged, that as long as the saving classes apply their savings to buy capital goods, there is no check to production and employment. This is true, and the first stage of over-saving does not exhibit waste. But, when it becomes evident to business men that the quantity of new capital-goods put into existence and productive use is in excess of that required for supplying all available markets,

[1] I do not intend to signify that it is a matter of social indifference how much money exists, or that it is undesirable to attempt by monetary regulations to stop violent fluctuation in general prices. Sufficient steadiness in the general price level, so that persons contracting for future sales or purchases, or otherwise making provisions for an economic future, may make safe estimates, is an evident prerequisite of a smoothly working economic system. This issue receives fuller treatment in its proper place, i. e., chapter IX.

the visible evidence of this excess checks the further application of monetary savings to the actual purchase and operation of the capital-goods produced in anticipation of investors' demands. 'Savings' then lie idle waiting for likely investments, while the capital-goods they were 'intended' to buy also lie stored up and waiting purchasers, or else are not brought into concrete existence, by the plant and labour ready to produce them, because of a fall-off in orders. There is no large over-production of consumers' goods: the big blockage and stoppage of production are thrown back on the trades producing machinery and other capital-goods, which, if they were produced, could not function profitably in increasing the supplies of consumables. At no time, indeed, is the damage at all adequately represented in stocks of unsaleable goods: the damage is in the idleness of the machinery of production.

The commonly accepted economic theory is that a right proportion between saving and spending is maintained by means of the rate of interest. Interest is the price paid for saving, and the way to stimulate an increase of the supply of any sort of goods or services is to raise its price, the way to depress the supply is to reduce its price. But this prime incentive is less applicable to the provision of capital than to any other service. There are several reasons for this. The prices for almost all other goods or services are payments of a lump sum on delivery of the goods, or soon after. Interest, the price of savings, is paid in a number of instalments over a long period of time, during which changes in the purchasing power of money may raise or lower indefinitely the real reward of saving.[1] This insecurity of price, is, of course, not confined to fixed-interest securities, but applies to all

[1] As Professor Irving Fisher so ably demonstrates, while the fall of prices between 1875 and 1895 increased the payment made to holders of fixed-interest securities bought in the earlier year, the rise of prices between 1895 and 1914 wiped out the greater part of the value of savings of 1895 invested in that order of securities.

investments, a heavy risk-element peculiar to this market, and interfering generally with the normal play of the price incentive.

But a still greater interference with rate of interest as regulator of supply of capital is the diversity of sources of supply, to which allusion has already been made. The considerable proportion of new capital raised by public bodies, not from the investment market, but from taxation, is not answerable to any rate-of-interest regulation. Nor is the much larger quantity of capital raised by building up reserves much affected by consideration of the current rate of interest, though to some extent the amounts put to reserve will be affected by the influence of the current bank-rate on the profits of the business, and by considerations of the possibility of raising new capital by debentures or fixed-interest shares at a higher or lower rate. It is only when we come to individual saving and investment that we can expect a rise or fall of current rate of interest to exercise some direct control. But does a rise in the rate of interest operate regularly and proportionately as a stimulus to individual saving? We have seen that most individual saving is the almost automatic accumulation of the surplus element of large incomes, after the desire for personal expenditure was satisfied. Such saving will not be much affected by any raising or lowering of rate of interest. Doubtless there are well-to-do persons, ambitious to become rich quickly, who will seize the opportunity of high interest, as an index of high dividends, to strain their saving power. But it cannot be said that the large savings of the rich ever tend to respond with any degree of exactness to the rate of interest. When we turn to men of modest means, wont to exercise some personal thrift in order to make provision for a future income from their savings in view of retirement, old age, a breakdown in health, and a decent provision for their family, or even to rise to a higher standard of current expenditure in the near future,

we shall expect to find some considerable response in rate of saving to the rate of interest. Among most men in this situation, when interest is higher, there will be a push to increase savings, so as to attain the desired object earlier and easier, so far as that object is a clearly envisaged future income. But most of them will be unable or unwilling to make any reduction of established expenditure in order to seize advantage of the higher price for saving. They will be content with the prospect that their usual rate of saving will bring them in a larger payment. In some cases, indeed, convinced that they have been saving at a sufficient pace before, the higher interest might cause them to reduce the amount of savings, on the calculation that a smaller amount is in its yield now equivalent to a larger amount at a lower rate of interest. Where, as among large classes of more ambitious workers, savings for provision against emergencies are always competing, closely and concisely, with expenditure for a rising standard of life, it will largely depend on individual temperament and particular personal situations whether the effect of a rising rate of interest will be to increase or decrease savings. When the saving process is closely envisaged as an attempt to make a definite amount of future provision against old age, disablement, or other anticipated emergency, a lowering of the rate of interest may stimulate a larger instead of a smaller rate of saving, if the future needs are to be met out of the interest on the invested capital. On the other hand, if the provision for the future is by way of the expenditure of the capital sum saved, and not by the expenditure of its interest, the higher rate of interest will have little effect on current rate of saving, except so far as the saver realises that, by letting his savings accumulate at compound interest, he can attain his goal earlier. This analysis serves to show how exceedingly unreliable the rate of interest is as a regulator of supply of new capital: over larger sources of supply it can hardly be said to operate

with any clearness of direction, and over the smaller sources its influence is dubious.

§ 9. No guarantee, evidently, is provided by this price system for the evocation of a saving fund adjusted with even moderate accuracy to the economic requirements of the industrial system. I have already urged that in the periodic over-production and depression of the chief industries we have an indication of a tendency to try to save and invest more than can be assimilated and converted into effectual productivity. There is a *prima facie* case for holding that if in normal times a larger proportion of the general income were spent and a smaller proportion saved, production as a whole would be maintained upon a higher level, and that the actual amount of saving over a period of time would be larger than it is, though forming a smaller proportion of the enhanced income which would emerge from the fuller productivity of the economic system.

Now this tendency to attempt to save and create new capital at a faster rate than it can be assimilated must in some measure be attributed to the wide inequalities in the distribution of the general income, or in other words, to the power of certain factors of production to extract payments that are in excess of what is economically necessary to evoke their use. We get back, in other words, to our old source of economic evil, the unearned surplus, the *causa causans* of discord and of waste. The chief economic waste, indeed, is expressed with some exactitude of measurement in the volume of un-employment and under-employment.

§ 10. Assuming the validity of this analysis, it is to greater equality and equity of distribution that we must look for an arrangement of incentive that will give a better adjustment between saving and spending, providing and apportioning the economically serviceable quantities of capital. Economists are in general agreement that inequality in distribution of the general income is favourable to saving, in

as much as the rich can and do save a larger proportion of their incomes than the poor. This agreement disposes some of them to fear any movement towards levelling incomes, on the ground that its check on saving would retard industrial development.[1] In effect they rely for industrial progress

[1] Living at a time and in a country where the expansion of markets, domestic and foreign, found profitable use for all the capital that was forthcoming, the early classical economists in Britain built their theory of production upon the assumption, first, that no limit existed to the proportion of the general income which could be put to the enlargement of capital, and, secondly, that high profits were doubly favourable to this saving process. For as McCulloch pointed out, "Experience shows that while high profits afford greater means of saving, they, at the same time, give additional force to the parsimonious principle" (*Principles of Political Economy,* p. 110). This doctrine was developed by J. S. Mill into the thesis that a "demand for commodities is not a demand for labour", i. e., that saving directly causes as much employment as spending, and indirectly builds up a larger wage-fund, so causing an increasing volume of employment.

Though the 'wage-fund' doctrine was dropped later on, the implication of unlimited saving, coupled with the belief that high profits favoured saving, continued to furnish a stubborn defence of unrestricted profiteering. For the high profits, saved and put back into business, enlarged productivity, reduced prices, and benefitted the consumer. Such was the naïve reasoning of the mid-century.

But it is remarkable to find that British economists still hold that 'unequal' and 'inequitable' distribution is essential to industrial progress. Here is Mr. Keynes saying that "the immense accumulations of fixed capital, which to the great benefit of mankind, were built up during the half-century before the war, could never have come about in a society where wealth was divided equitably" (*The Economic Consequences of the Peace,* p. 19). Though Sir W. Beveridge does not go so far in his defense of inequality, his thinking ranges along the same line. "If incomes were so far equalised that all saving meant sacrifice of a keenly desired present good for a future one, it is extremely likely that no sufficient provision for new capital would be made at all" (i. e., Crusoe would not save!) (*Unemployment,* p. 63). A similar fear of under-saving as the result of equalisation of income permeates Sir J. Stamp's analysis of the results of a capital levy (*Principles of Taxation,* p. 164).

But perhaps the most instructive pronouncement is that of Dr. Cannan. "The economist regards the existing inequality of distribution as in itself extremely wasteful, but sees that it must in the main be retained for the present, because it provides both the motive force and the regulator for the existing system of production; and,

upon this very 'surplus' which I have indicated as the chief source of economic discord and waste, for only out of this surplus can society get the ample supply of new capital that is needed.

If it were, indeed, true that a more equal and equitable distribution of income was detrimental to progress, in that it starved the economic system, we should be landed in a moral impasse. But if, as experience attests, the present unequal distribution results in an attempt to create more new capital than can actually function for productive purposes, we have good grounds for holding that a more equitable distribution would be also more conducive to feeding the economic system with that supply of capital which it can best digest, so maintaining production at its highest level.

The view that economic progress depends for its success upon the endowment of favoured classes and individuals with rents, profits, dividends, and other gains, which are in large measure not the result of any skill or energy on the part of their recipients, but the results of natural or contrived scarcities of supply is indeed a view as repugnant to reason as it is to morals. It is not seriously arguable that an economic community, moving towards greater equality of income and of standards of living, would suffer from an insufficiency of capital to develop the improvements of technique which the applied sciences are continually discovering. It is surely reasonable to hold that the greater security of livelihood upon a higher level, with the improved intelligence and foresight which these conditions would entail, would both enable and stimulate a far larger contribution to the saving fund to be made by the general body of the workers, so far as that fund depended upon personal thrift. If, as is prob-

even were it practicable, it would not be worth while to make and introduce the ideal of distribution, if it led to a considerable fall in produce per head. The existing inequality, regarded broadly, is in fact a necessary evil" (*The Economic Outlook,* p. 252).

able, an increasing share of new capital will be provided out of public revenues, state or municipal, raised from taxation upon 'surplus' elements of income, there is no ground for supposing that it is necessary to leave such surpluses in private hands in order to get their contribution to the saving fund.

If, therefore, as we have argued, both moral and economic principles demand that this 'irrational surplus' should be absorbed, partly in higher wages, partly in public revenue, there is every ground for maintaining that such processes of economic equity would be attended by a better adjustment of the proportions of spending and saving in the aggregate income. It will, doubtless, be objected that experience shows that governmental bodies make a more wasteful use of any capital which they employ than do private capitalists. This topic we have already touched, pointing out that some of the charges of waste and business incompetence attributed to public enterprises arise from misconceptions of the different meanings of 'economy' as employed by a profit-seeking business and a public service. If the former pays anything above the bare wage of efficiency, or fails to extract the utmost toll of labour from the workers it employs, this is bad business economy. But a public service may well adopt a more humane standard, realising that it may not be sound social policy to pay the lowest market wage, or to pursue a driving policy which wears out the worker prematurely and makes him a burden on some other department of the public service.

§ 11. There is, however, another and not less important aspect of investment that deserves consideration. The human waste of our present saving and investment system is not confined to the quantitative maladjustment upon which we have dwelt. Apart from the well-known processes of wild speculation and of actual fraud, which the ignorance of investors enables less scrupulous financiers to pursue, the whole

system of investment of capital is uneconomical from the human or social standpoint. New capital is apportioned among various employments in accordance with the early estimated profitability of the several enterprises, and without regard either to the general and long-view estimate of national or world productivity, or to the human worth of the goods or services which the capital assists to produce. Enterprises of great but slow maturing value, e.g., many afforestation or irrigation or other developmental projects, cannot get from any private sources the capital which they require, while rum-running or greyhound racing can absorb out of the general saving-fund as much capital as their promoters wish. The proportion of home investment to foreign investment may be a matter of profound social importance for the future economic strength of a nation, while the uses made of exported capital, e.g., for railroads, for civic display, for armaments, for court extravagances, may be fraught with widely different reactions, economic and human, both upon the countries which receive the capital and those which furnish it. In a word, the normal current policy which allows the free investment fund to be distributed entirely on private calculations of an early yield of profits has no claim to be a sound social or even a safe economic policy. The notion that astute financiers, playing upon the appetite of a necessarily ignorant and credulous public of investors, can be relied upon to put the fund of savings to its best economic or human uses, is quite untenable. The best that can be said for it is that, failing any other more responsible guidance, it will tend to distribute the savings according to its best short-range profitability, and that, as profits generally accord with economic utilities, the saving fund will therefore tend to flow into useful channels. This, of course, is a remnant of the doctrine of 'natural harmony' and 'unseen hand', the individualist philosophy whose deficiencies have been already disclosed. Our argu-

ment has been that the conditions which gave apparent validity to this principle, the knowledge, free choice, and mobility, have never been achieved, and that, so far as capital is concerned, there is no ground for holding that either the intelligent wits of individual investors, or the gainful calculations of financiers, are a reliable guarantee for the best use of savings. But a more rational distribution of the general income, in which the 'surplus' was absorbed, partly, in raising workers' incomes up to a level of economic and human efficiency, partly, in the enlargement of public services and community life, would undoubtedly bring great economies in the utilisation of capital. It would, by increasing and regularising the effective demand for standard commodities and services, absorb a larger proportion of capital in those industries which can best exploit the economies of capitalist production. By reducing the volume of capital and labour employed in the luxury trades, which are most subject to the whims and freaks of taste and fashion, it would give more security to employment, and force new capital into more socially useful investments. So far as individual saving continued to be a chief or an important source of new capital, the policy of distribution according to capacity for use should take into account the obligation of all members of the community to make due provision for future contingencies which lie outside the growing area of communal provisions. The family income, in other words, should be adequate, not only to furnish the current requirements, but to leave a margin for personal thrift. The better distribution of income which we envisage would for the first time give a rational foundation to the practice of that virtue which has figured so prominently in the narrow ethics of political economists. Hitherto the preaching of thrift, as a supreme duty of every man to himself and to society, has always carried a taint of insincerity. For, if applied to the conduct of the rich, whose savings involved no self-sacrifice,

it was unmeaning and irrelevant. As applied to the poor, it was often a doctrine of false economy. For a prime duty of the worker is to secure an efficient standard of current consumption for himself and his family. Not until that is attained, can any obligation to provide for remote contingencies arise. Moreover, the narrow significance given to the term 'thrift' has injuriously affected the whole conception of 'economy'. Properly regarded, thrift should signify the best employment of the economic resources of an individual or a community. For personal life, it will mean the best application of one's powers and the best use of one's income. In this latter application, it will signify the proportionate application of an income so as to get the most out of it. Proper food, clothing, housing, and other material necessaries, will come first, then expenditure on health, education, and other provisions for the lasting welfare of the family. These needs take precedence of saving for investment, even to meet future emergencies which are certain. It was an excessive assertion of a distinctively bourgeois economy, in league with primitive asceticism, that gave to saving the high place it occupies in the hierarchy of economic virtues. Man 'thrives' by right spending in the first instance, and then by a right direction of such income as he can afford to save.

Saving, unlimited and undirected, may, as we perceive, do more harm than good to the saver and to the society of which he is a member. In the individual it may feed avarice, timidity, and love of power, while it may subject society to those wild congestions and wastes of productive power to which attention has been called above. If a better distribution of personal income would, as we contend, furnish what may be called a 'nature cure' for some of these maladies, it could not, however, do all that is required to place the whole body of savings in their most serviceable channels. As the economy of community life gains more recognition, increased capital provision must be made for slow maturing future

public services and public enjoyments. "The joys that are in widest communalty spread" do not come into being spontaneously, and without prevision and provision from the resources of the past. Such provision, so far as it rests upon economic foundations, cannot be made out of individual foresight and saving. It belongs in its sources, as in its achievements, to communal activity. Group life, as we perceive it, cannot be resolved into a number of individual economies, but has collective activities and responsibilites, which, so far as they impinge on economic life, must have economic incomes at their command. This conception of a nation or a city having a right to a share of the general income, in virtue of the services it renders to the production of wealth, and having, therefore, an obligation to make the best public use of its income by the performance of communal, or non-remunerative services, though extending far beyond the subject which immediately engages our attention, has a definite bearing upon the utilisation of those savings that are the progress fund of the future. For if, as we see, there exist important developmental services, which in their nature can make no secure or adequate appeal to the current interests of individual savers, they form a proper field for the application of those unearned surpluses which are rightly claimed as public revenue.

# CHAPTER V

## STANDARDS OF CONSUMPTION

§ 1. Adam Smith declared that "Consumption is the sole end and purpose of all production, and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer." This extreme statement of the subordination of the producer to the consumer might have led to the expectation that economists would have placed the conscious interests and the art of consumption in the forefront of their science. But a survey of economic literature shows that the recognition given to consumption is almost wholly formal, and that little serious attempt has yet been made to bring consumption into the economic system as an integral part.

It is worth while enquiring into the causes of this neglect. The proportion of the time and energies of man devoted to productive processes, and the organisation of those processes into a single economic system through the process of exchange, present the unity of a business world that seems self-sufficing. Merchants, manufacturers, bankers, agriculturalists, compelled to extend their thoughts from their particular employments so as to envisage industry or commerce as a whole, engaged the attention of statesmen, publicists, and theorists, to help them in furthering these wider interests. Though everybody agreed that consumption was the final goal, this goal, as such, was nobody's concern. When goods passed through the hands of farmers, manufacturers, and traders, into the hands of consumers, they

seemed to pass out of 'the economic system' into a destructive process that took place in privacy and obscurity. When goods passed over the retail counter, they ceased to be economic entities.

This statement, however, needs one important qualification. Economists were concerned with consumption just in so far as it counted towards production. That is to say, they developed the distinction between productive and unproductive consumption, the former coming within their economic survey as a process necessary for the maintenance of human productive energy. Upon this score the early economists are sometimes misrepresented as inhuman monsters, wilfully subordinating the whole life of a man to material money-making ends, and condemning all comfort and luxury as waste. This is not their real position. Most of them were favourable to a production and distribution of income that enabled the workers to live in comfort and to spend 'unproductively'. J. S. Mill observes, "It will be a great error to regret the large proportion of the annual produce which in an opulent country goes to supply unproductive consumption. It would be to lament that the community has so much to spare from its necessities for its pleasures and for its higher uses. This portion of the produce is the fund from which all the wants of the community, other than those of mere living, are provided for: the measure of its means of enjoyment and of its power of accomplishing all purposes not productive." [1]

But all the same this 'unproductive consumption', though vitally valuable, remained outside the consideration of economists. While consumption remained the formal end of economic processes, production was the real end, productive consumption alone coming within the economic sphere. This exclusion of consumption, as such, was supported by two other attitudes of early economic theory. The

[1] *Principles*, Bk. I., chap. III, § 6.

use of the term 'consumption' to describe the wear and tear of plant and the utilisation of raw materials and semi-manufactured goods in productive processes helped to confuse the terminology of economic theory. There is nothing in common in the process of converting cotton yarn into cotton-sheeting and the process of wearing out cotton-clothing, and yet the term 'consumption' is applied indifferently to both. But a still stouter barrier, set up by early economic thinkers against the admission of consumption, was the universal adoption of the cost theory of value. 'Value' being the central abstraction of the economic system, the treatment of its determination by considerations lying entirely within the productive processes made it unnecessary to bring under survey the process of consumption.

§ 2. Not until Gossen, followed by the Austrian economists, with Jevons in England, turned the tables on the 'cost' economists, by developing the 'final utility' theory of value, was it possible to get any organised attention for consumption.[1] When these thinkers made human wants the key to economic processes, the art of consumption could no longer be denied its proper place in the science of economics. So, at least, it might have been supposed. Jevons, indeed, explicitly demanded the place of honour in the science for consumption. "Economics must be founded upon a full and accurate investigation of the conditions of utility; and to understand this element, we must necessarily examine the wants and desires of man. We first of all need a theory of the consumption of wealth."[2] Yet in the half-century that has transpired since these words were written, no such 'theory' has emerged. Writing some two years later, F. A. Walker expressed his concern at the deficiency. "We need," he wrote, "a new Adam Smith, or another Hume, to write the

[1] Cf. L. H. Haney, *History of Economic Thought,* chap. XXVIII, for early developments of the 'utility' theory.

[2] *Theory of Political Economy,* p. 42.

economics of consumption in which would be found the real Dynamics of Wealth; to trace to their effects upon production the forces that are set in motion by the uses made of wealth; to show how certain forms of consumption clear the mind, strengthen the hand, and elevate the aims of the individual economic agent, while promoting that social order and material confidence which are favourable conditions for the complete development and harmonious action of the industrial system; how other forms of consumption debase and debauch man as an economic agent and introduce disorder and waste into the complicated mechanism of the productive agencies."[1]

Though this is in effect only a plea for a discriminative study of productive consumption, it furnishes a striking testimony to the failure of economists after several generations of scientific study to make any substantial progress along the path indicated so clearly by Adam Smith.

It would, however, be wrong to disparage the progress that has actually been made by economists and social investigators in the field of consumption. The pursuit of 'utility' into consumers' desires and conduct, with the bearings of these pressures upon elasticities of demand, has played a part of increasing importance in modern economic theory. Alfred Marshall's presentation of the problem of price, or market value, in terms of interacting supply and demand curves that reflect equally the pressures from the side of 'scarcity' and of utility, brought him and many of his followers into a closer consideration of consumption than had hitherto been made.

But a study primarily directed to the ascertainment and measurement of elasticity of demand, does not yet accord the disinterested valuation of consumptive processes required by a theory in which consumption is the 'sole end'. For consumption here only enters the economic field as a factor

[1] *Political Economy*, p. 317.

in markets and the determination of prices, not as the means of realising the purpose to which the whole economic system is directed. These investigations of utilities have, however, insensibly sapped the older barriers of an economic study in which productivity was the be-all and end-all. Economic welfare through consumers' satisfactions has come to figure more distinctly as an object of consideration. But, though, since Marshall in the section of his great work, entitled 'Our Wants and Their Satisfaction', restored consumption to its place in the theory of economics, later economists have shown some disposition to consider the importance of the study of 'elasticity' in the various items of consumption, and to take some account of the interactions between production, distribution, and consumption,[1] it cannot be said that any adequate study either of the evolution of actual standards of consumption, or of 'desirable' standards, has yet been made. This is due, partly, to the inherent difficulties attending such a study, partly, to a failure to realise adequately that the organic nature of man necessarily stamps itself on his standard of consumption, and that, therefore, the various items of consumption must be studied as contributions towards this organic whole. Though much attention has been given to the economy of expenditure in equalising 'marginal utilities', it has not been clearly recognised that the several margins are themselves determined by processes of utilitarian calculation based on balances of organic requirements. While economists have devoted much thought and study to discussing the elasticity of demand for wheat, or cotton goods, or wines in different classes of consumers, and in relation to other substitutional goods, they have seldom based their studies upon an examination of the

[1] See, for example, passages in Pigou's *Economics of Welfare*, on distribution of income as affecting the nature of production and consumption (57, note), security of income as a condition of economic welfare from consumption (67), leisure and education as enabling people to get more utility out of the same goods (70).

organic structure of a standard of consumption. Not that the interdependency of different articles of consumption has been ignored. Complementary, subsidiary, and substitutional goods have become recognised categories in the study of the demand side of the price equation. The Austrian utility economists in particular, from Gossen, the German founder, to Menger, Böhm-Bawerk and the more recent members of this school, have, in studying the psychology of needs, shown considerable skill in relating utilities as disclosed through demand, to the relative importance of human needs. But, though some recognition of the organic problem is here accorded, its significance is nowhere faced. The American economist, S. N. Patten, is entitled to the credit of the first serious attempt to work out a treatment of economics in terms of the organic interaction between the arts of production and of consumption. His endeavor to trace and expand harmonies and disharmonies in food consumption, and to relate them on the one hand to biological requirements, on the other to physical and social environment, was pioneer work of the highest value. Though some of his valuations were highly disputable, and his biology somewhat fanciful, the rightness of his methods, and his courage in pursuing them will secure for him an important place in economic thought.

§ 3. It may, however, be contended, as a partial defence of the slowness of economists in exploring this field, that they await the further results of two sorts of investigation into the problem of consumption. Though Eden, Young, and other economic historians of the eighteenth century, began a process of enquiry into working-class consumption which in recent times has developed, in England, America, France, and elsewhere, into statistical analyses of graded budgets on different income levels in different classes, much still remains to be done before we can get a census of consumption comparable in volume of information and degree of reliability with the best modern census of production. Yet such

is what we need, if we are to get a true picture and estimate of the volume of consumer's utility or satisfaction issuing from the producer's activities in the various processes of production. Only by such careful tabulation of statistical information upon the expenditure side can we build up the various standards of consumption which measure and express the actual desires of the people for economic goods, and relate these standards to the environmental, cultural, occupational, and other conditions that vitally affect consumption.

In such a census the unit of enquiry is the family, as the unit in a census of production is the business, the bachelor family corresponding to the one-man business. Taking the family as a self-contained consuming structure, its composition must be studied in regard to the number, age, sex, occupation, income, residence of its members, as a basis for the interpretation of the family budget in its essential items. In any classification of items of consumption the most serviceable approach lies in the distinction between custom or convention and personal choice. The individual and family expenditure of almost all people, and for almost all purposes, is determined mainly by the custom of the country, class, or neighbourhood. This applies to the food, clothes, housing, furniture, and other physical requisites of life, consumed in private within the home, as much as or more than, to the expenditure on appearance, luxury, and enjoyments, where public opinion is directly operative. For though it is true that biological needs and physical environment must be regarded as ultimate determinants in the former group, this determination is imposed by long tradition and hard convention upon each fresh generation. Man, like other animals, is most conservative in his feeding habits, and though new and foreign articles of diet may be grafted on to the customary diet, the process is generally slow and disturbing, as the story of the introduction of tea, alcohol, and tobacco

into countries where these articles were previously unknown, will serve to indicate.

§ 4. Dr. Patten justly emphasised the importance of a liberal experimentalism in diet to the progress of a people. "That the standard of life depends on the regularity and variety of food supply, cannot receive too much emphasis. The increase in the quantity of the commodities produced does not raise the standard of life unless there is an increase in the variety consumed."[1] Indeed, from the standpoint both of supply and demand, variety and regularity are intimately connected. The dependence of a local population upon a single crop is notoriously a perilous situation, as Ireland learned in 1848 and Egypt from the earliest times. To accommodate the organic needs of human life to the aptitudes of the physical environment is, indeed, the basic problem of economy. And the successful solution of this problem depends upon the adaptability of man, the acquisition and cultivation of a sufficient liking for variety, a qualitative instead of a purely quantitive appetite. Though a country may be upon the whole best adapted to grow some single crop, such as rice or wheat, there will be qualities of soil or situation suitable for other crops which are wasted if only rice or wheat is wanted. Since there is less likelihood of the simultaneous failure of several crops than of any one, it is evident that this policy makes in the long run both for a larger and a more regular food-supply. On the side of demand, or consumption, the economy is still more evident. A 'verdammte Bedürfnislosigkeit' is the barrier to all progress. A divine discontent first exhibits itself in a craving of the appetite for foods that are new and interesting, for clothing and personal decorations that give distinction, for tools with which we can do things we could not do before. Thus a more varied utilisation of the physical environment brings with it a fuller, securer, and at the same time a more interest-

[1] *The Consumption of Wealth*, p. 48.

ing life. This is the chief explanation both of the rapid economic progress and the widespread optimism of 'new countries'. Their settlers, by selection the more adventurous members of the old communities, are more easily 'unsettled' in their routine and customary ways of life when they come into strange unexplored environments. Their exploring spirit is stimulated, partly by the necessities of a pioneer struggle, partly by the new zest for the game of life. With light attachment to the plot of land which reared them, they rapidly adapt themselves to new conditions and to changing scenes, acquiring new tastes and wants, and experimenting for their satisfaction. Some elements of this pioneer spirit are carried into the rapid evolution of great city life, and more than anything else are accountable for the 'phenomenally' swift advance of the material civilisation of the United States in comparison with European countries where simplicity and conservatism in popular consumption have held in leash the modern forces of capitalist production.

There is, of course, another aspect of this question which comes up in any analysis of human progress in the arts of civilisation. It is our old problem never fully soluble, of the degree of compatibility between actual wants or desires and human welfare in its highest sense. The charge of materialism made against the more advanced industrial communities, so far as it has validity, is based on an over-stimulation of certain instincts for physical satisfactions, due to the innovating tendencies of modern capitalism with its elaborated apparatus of selling pressures. Here lies the excess that corresponds to a defect of primitive economic conservatism, a hasty exploitation of newly roused tastes that absorb too much of human nature in economic processes. "Getting and spending, we lay waste our powers."

Trial and error for man in a given habitat may, however, reasonably be held to have worked out standards of life, in the strict sense of that term, on a basis of biological utility,

which each generation accepts on this security and is indisposed to tamper with. But conventional standards do change even in the most conservative classes of consumers. Novelties, at first due to the audacity and leadership of innovators, are taken on by imitation backed by a hankering for personal distinction, though such distinction soon evaporates as the novelty itself becomes fashionable, and then sinks to a conventional respectability. Where such novelties are engendered within a group by discovery and leadership, they commonly carry seeds of progress and a fuller life. Indeed, the primary distinction between man and other animals is that he can and does break away from purely instinctive and customary behaviour. So everywhere in human society the customary or conventional expenditure and consumption is punctured by some self-assertion making for variation, and this at all levels. For within each conventional control some scope for self-assertion in taste or prestige will be found. Where fashion's reign is strongest in dress, the itch for personal variation in shape, colour, or material is strongest. It is part of the perpetual conflict between the community and the individual, the struggle for personal liberty. There is, however, a rational distinction between changes in standards of consumption, initiated by individual consumers and extended by imitation, and changes brought about from the producer's side by business men through advertisement and salesmanship. The former changes carry a definite presumption of utility, some progress in the art of consumption: the latter carry no such presumption, for advertisement and salesmanship may, for profitable ends, be skilfully directed to divert expenditure from a better to a worse use. Even if we admit that, normally, successful salesmanship will involve some merit in the goods, and some improved expenditure of incomes, the gain here is exceedingly precarious, as compared with that of changes in taste initiated by the consumer himself.

It may be held that civilisation, defined as "the art of living together comfortably in large numbers",[1] consists in harmonising the needs of a standardised community with those of a freely self-expressive personality.

But on the consuming side this problem is further complicated by the necessary adjustment of personal needs and desires within the smaller closer community, the family. In all the several elements which should govern consumption, the composition of the family in size, sex, age, etc., no two families are exactly alike, and a truly economic art of consumption should allow for all such differences. But the weight of convention is so heavy as to involve great waste in the prime essentials of food, clothing, and housing, in family budgets.

§ 5. How deficient custom and convention, as affected by modern adaptations, are in terms of vital utility, can, however, only be appreciated when to a sufficient body of actual budgeting knowledge the criticism of scientific dietetics and hygiene are applied. The view that trial and error, backed by the elimination of physically unfit, must have established a fundamentally sound food standard, is countered by such judgments as the following. "There can be no reasonable doubt from all the evidence now available that the great majority of our population are suffering from a deficiency in these essential parts of food (i. e., vitamins). The cost of this deficiency in human suffering and in economic loss is incalculable but certainly vast."[2]

Recent declines in the rate of infantile mortality due to organised instruction in feeding, form a most striking testimony to the failure of custom and tradition to adjust food to human requirements. The science of physical hygiene is still in its infancy, but there is good ground for holding that reformed feeding, clothing, and housing, to say nothing of

[1] Carver, *The Economy of Human Energy*, p. 105.
[2] *Annual Report* for 1926–27 of the Medical Research Council.

other material factors, may be expected within the next few decades to add several years to the average age of man in civilised countries.

§ 6. Such examples of vital errors in the actual evolution of standards of consumption are attributable in part, no doubt, to the ignorance of man and the insufficiency of his crude tests of survival utility in the goods that come up for his appraisal. He simply does not know enough about food values, sanitation, and other vital utilities. But that is not the chief explanation. There are two more powerful influences in his choice. One is the relative cost of the different articles of food, clothing, etc., available. What articles are available will in simpler societies be determined by local natural resources, and even in civilised countries the prime elements in standards of living have been mostly fixed at times when areas of exchange were very narrow. If a family has to grow its own foods, it will concentrate its production and consumption upon those it can produce with least labour, with little respect for food values, or, in most instances, for any pleasures in variety of diet. Where land is scarce and hard to cultivate, this pressure from the cost side will, of course, be strongest. So in an Irish small-holding, potatoes long held the primacy in diet. In most parts of rural England few vegetables enter the farmer's or labourer's diet, partly, because they do not rank as serious food, but largely because of the trouble of growing them in small quantities. In towns, where foods drawn from wide areas are more variable and are sometimes cheap, new elements are more readily incorporated in a class standard. There is more craving for variety, and tasty new foods such as bananas and tomatoes get a quicker and wider recognition. But here we touch other influences determining the adoption of new goods, the pleasure, interest, or prestige, attaching to them. When economists like S. N. Patten explain that, "In the ratio of cost to utility which different articles have, is to be found

the condition which determines the standard of life",[1] we must beware of identifying utility with intrinsic value, or even with economic service in the sense of enhanced efficiency. To represent man as a rational being, or even as a soundly instinctive animal, seeking to raise and improve his standard of living by satisfying all his actual and potential wants in something like the order of their 'real importance' in the evolution of a higher life, is to succumb to a false idealism. Patten himself rightly comments upon "the strong tendency of primitive men to use improved production to enable them to secure rare articles which appeal in the strongest way to the cravings of an abnormal appetite." Nor is this peculiar to primitive man. A sudden considerable rise in the wages of unskilled male labourers may go at first almost entirely into drink and related dissipations, the chief sources of conscious pleasure, not into improvements of food, clothes, or housing, with their slower and slighter appeals to conscious interest and physical desire. The recent rapid rise in women's wages in England has gone mostly into dress refinements as the chief field of pleasure and prestige. So with the *nouveaux riches* in most countries, their first reactions to their new status take shape in a riot of material extravagance, their second in showy philanthropy, or some prestigious satisfaction of the collecting instinct. But too much stress must not be laid upon such instances of conspicuous waste. After the first disturbances attending a considerable rise of spending power, a process of settlement sets in, correcting some of the early errors and applying the new resources to a more general and harmonious reorganisation of the standard of life. Even the new rich themselves can sometimes discern and imitate the finer, calmer graces of life in old settled aristocracies; and the higher-paid workers find something worthy of admiring imitation in the conventional respectabilities of a bourgeoisie. Believers in

[1] *The Consumption of Wealth*, p. 47.

social progress are bound to hold that some sane human urge is expressed in the evolution of rising standards of consumption, as an integral aspect of civilisation.

§ 7. Such considerations bearing on the formation of standards of consumption will serve to show the crudeness and fatuity of the old economic distinctions between necessaries, comforts, and luxuries. The only valid distinction is between consumption that is good and consumption that is bad, welfare and ill fare. Whatever economic expenditure contributes toward the enlargement and enrichment of life is evidently a necessary. It is 'wealth' in the humanist sense. Whatever expenditure does not so contribute is waste or 'illth'.

Reverting, however, to the classical distinction between productive and unproductive consumption, we may regard the growth of the latter as the criterion of economic progress. That is to say, economic progress may be measured in terms of the surplus over and above that consumption necessary to 'maintain' the human energy employed in economic work. The larger the surplus thus available, as economic support for non-economic interests and activities, the higher the standard of civilisation and personality. For most of the interests and activities that lie outside the economic sphere, family life, friendship, and the various amenities of 'social' life, the acquisition of knowledge and the cultivation of tastes for art and literature, sport and recreation, in fact nearly all the sources of conscious enjoyment outside the material range, though not to be regarded as economic in their nature, demand some sustenance or aid from what we call here the economic surplus, the fund of progress.

It is, indeed, upon the sound use of this surplus that the great controversy as to the value of our civilisation turns. The critics of that civilisation base their strictures upon the abuses of unproductive consumption, the waste, frivolity, and degradation in the luxurious goods and services that are

its economic representatives, with the vitiation of the moral and intellectual life they go to nourish. If the scientific hygienists are mainly concerned with the elements of consumption reckoned as productive or economic necessaries, seeking to correct the deficiencies of their rude empiricism and conventionalism, so our ethicists or humanists fasten on the damages to the higher elements of personality and community from wrong uses of the fund of progress. One need not here cite the charges of materialism, vulgar ostentation, physical and moral corruption, the mechanisation of the finer arts of life, made by the prophets of 'a simple life'. It is better to rely upon the more sober judgments of the general educated public for our estimate of the human damages attributable to the misuse of our progress fund. There is here a general agreement that the rapid growth of economic wealth has not brought its full tale of human happiness, that the advances of economic income have not in general been absorbed in developing the finer arts of human welfare. A large and growing body of educated opinion relates this misspending of the progress fund to its irregular, unequal, and unfair distribution.

Put into formal shape the criticism runs thus. Man is a creature with unlimited capacity for developing new tastes, activities, and interests. But there are two chief related conditions in the economy of their satisfaction, pace, and harmony. If the means to satisfy new tastes or interests is miraculously showered upon a man, he will either ruin these budding tastes by cruder enjoyments, or he will use his new resources to carry old satisfactions to satiety. In either case, he will upset the organic harmony which should direct his whole economy of wants and satisfactions. Such wastes are visible, not only in the 'new rich', but in the wage-earners when some stroke of chance or strategy yields a relatively big sudden advance of income. If the fund of economic progress, due to the increasing control of man over nature,

is to be applied well, it must conform so far as possible to our 'natural' law of distribution according to capacity for use, that is to say, it should flow into personal and communal consumption, so as to nourish and satisfy those tastes and interests which were ripening towards conscious recognition just above the level of the earlier standards. Making due allowance for wastes in the normal evolution of wants, history supports the view that gradual advances in income in a community, or in a grade of workers, is on the whole absorbed and assimilated in improved standards of living. Sudden miraculous gains breed psychological disorder reflected often in physical excesses. Gradual gains exercise an educative influence that shows itself, not only in a sound use of the new increments, but in organic improvements of the whole expenditure. An increasing proportion of the income is applied to the purchase of more durable goods, or by saving or insurance to more distinct provisions against economic losses. An equitable distribution of the economic surplus would thus be doubly advantageous, in securing a sounder use of the new income, and in regularising the play of economic forces.

§ 8. In an earlier chapter we discussed the quantitative interdependency of production and consumption, and the importance of their right adjustment in the interests of productivity and employment. But a study of the qualitative interactions of the arts of production and consumption is of still more critical importance for the human valuation of economic processes. Recognising, as we do, that in bodily and mental functions and requirements the members of a community have much in common, there is a strong support for the arts of standardised mass-production which play so large a part in modern industry. Modern capitalism may thus be said to be based upon the uniformity of human nature. But the sound economy of standardised production can be carried somewhat further. Where absolute identity

of needs and tastes does not exist, the similarity may be so close that, in order to secure the economies of routine production, the differences may reasonably be ignored. Large-scale production, indeed, can itself, by grading of size, shape, and even quality, go far towards meeting individual needs diverging from the mean, though never all the way. Where the market is large enough, food, clothing, furniture, and many other requisites, can be standardised in sufficient variety to satisfy all ordinary tastes, or else some final act of individual adaption can be grafted on to the standardised processes.[1] But it is impossible to deny the tendency of modern manufacture and commerce to press the economy of standardisation far beyond these limits, bribing consumers to subordinate their natural differences in the interests of a cheap conformity.

[1] "It is wrong to suppose that the exigencies of large-scale production allow no scope for the expression of individuality. Really, we have a much wider range of goods to draw from than social critics give us credit for. Our taking advantage of the economics of large-volume production does not mean that all of us have to live so that we fit a standardised consuming pattern. There are limits to the gaining of economies by increased size in industry. As the population increases, as its new arrangements make distributive functions easier, as transport facilities grow more efficient and cheaper, so enlarging the market-areas for goods, wider ranges of choice instead of more restricted ones result". (R. G. Tugwell, *Industry's Coming of Age*, p. 108).

Even where choice is narrowed, it does not follow that there is any real loss of liberty or personal satisfaction. "A few years ago there were being manufactured in the United States 179 different varieties of these lamp bases which made necessary, even for the consumer in the home, the memorising of a considerable specification before procuring a lamp which would fit the special socket which happened to be installed in that particular house. At the present time, the seventy different manufacturers who are producing lamp bases in the United States have reduced the number of varieties to six. In the same industry, as late as 1918, there were thirty-seven distinct varieties of attachment plugs in use, each one good in itself, but no one interchangeable with any other. At the present time only one type is made, with obvious advantages to everyone concerned". (*Ibid.*, p. 134).

Here, perhaps, we touch the gravest issue between the economic system and humanity. The dominant economic forces of our time are employing all the resources of the physical sciences and of applied psychology to produce large masses of identical goods, and to persuade large masses of persons to purchase and consume them. The economics of large-scale production are carried from the cruder into the finer forms of manufacture, taking over most of the work formerly done by skilled craftsmen: the fine arts themselves are invaded by 'art goods' and mechanical devices.

Nor is the peril confined to material commodities. There is a serious attempt, partly in the interest of profitable business, partly of political and intellectual conservatism, to standardise the mental processes of whole communities. If all the members of a community can be induced, not merely to buy the same foods, wear the same clothes, use the same furniture and other material appliances, but to learn the same facts, think the same thoughts, feel the same emotions, hold the same opinions, cultivate the same tastes and interests, all the machinery of life, political and spiritual, as well as physical, will run smoothly, safely, and economically. If schools and colleges can get to work, planning and training the plastic minds of youths into common ways of thinking and common valuations of life, while adult education on similar lines is conducted by the press, the churches, the radio, the movies, the theatre, repressing or suppressing minority tastes and opinions and personal eccentricities of thought and conduct, material and mental goods can be produced most cheaply and most profitably, and complete regularity and security of life will prevail. Though primarily economic in origin and impetus, this movement invades all other fields of human interest and activity through the economic sustenance which all of them in some measure require. The syndicated press, the institutionalised churches, the centralised wireless station, the film, the gramophone

record, all derive from the economy of large-scale production: all are interested to produce a standard mind.

§ 9. Now so far as mankind is identical and closely similar in physique, mental make-up, and circumstances, this economy is serviceable. Educationalists sometimes over-stress the uniqueness of personality. The many common characters, needs, and interests of men afford large scope for routine processes and mass production. Up to a certain level a standard mind is desirable. Even in the highest planes of culture provision must be made for sympathy and common understanding: elaborate codes of social signs, accepted bodies of knowledge, common attitudes of mind are of the very substance of civilisation. Nor need we hold that such common body of culture, with all its institutions, exists solely as a groundwork for the unique qualities of personality, that community as such has no value. The life that all men live in common may, according to any universal standard, or in God's eyes, be immensely more valuable than those slight divergencies which give distinction and value among mankind. But even men esteem highly the qualities which make them to get together.

There is, moreover, as we have seen, no natural conflict between the claims of society and of individuality. On the contrary, in society or community individuals achieve a fuller individuality. This coöperation for the common good is so productive as to enable them to satisfy their common needs on a contributive basis which places a far larger proportion of their time and energy at their several disposals for the satisfaction of their several desires. An intelligently ordered and progressive society would, by constantly improving organisation and technique, be able to satisfy the common requirements of its members by a continually diminishing call upon their energies. This, however, assumes a static interpretation of 'common requirements'. It also assumes that individuality is nowise served by participation

in the common enterprise. Neither assumption is correct.

The standard of 'common requirements', of community in general terms, does not 'stand' but grows in size and in complexity, and from that deeper, richer common soil individuals draw in such wise as to enrich their personalities. We cannot, therefore, accept a definition of human progress which implies such an economy of common or coöperative work as will leave everybody free to employ an ever growing proportion of his energy for his own private ends, on the assumption that in this way a best personality is attained. The improved economy of human coöperation must go partly to the enlargement of individual liberty but not wholly. Community must also be enlarged. To work out the harmony of these distinguishable but interacting processes is the problem of civilisation. There is no accepted key to this problem. For some people value individual freedom more than others, and prefer a more meagre personality provided it is 'their own'. But one need not overstress the difficulty. There will be a fairly general assent to the view that progressive welfare comprises both a larger measure of individual liberty and a closer and more complex coöperation with a growing sense of community.

§ 10. We may, therefore, pose again the issue raised by the economics of mass-production and its assault upon the individuality of the consumer. A society whose members avail themselves of improvements in the technique and organisation of industry to demand ever increasing quantities of goods conforming to the economy of mass-production, must find themselves in the following quandary. The larger leisure and spare energy, which machine-production might have won for them, are lost by the necessity of an ever increasing output. Even if some shortening of the work-day takes place, the intenser labour of the shorter day may rob it of its human value. But more important still is the effect of the consumption of larger numbers and varieties of

'standard' goods upon the mental and physical attitude of consumers. More of their free time and energy is devoted to modes of consumption which do not call for, or even permit, the display of individual tastes and activity. This is best illustrated in non-material branches of consumption, the standardised mental and recreational products of the press, the cinema, the radio, which draw their profitable strength from the economy of mechanical repetition.

The standardised clothing, housing, furniture, and transport, no doubt, stamp close conformity upon the body and mind of masses of men, and the revolt of personal culture against such uniformity cannot be ignored. But the demand for individuality in these lower levels of a standard of life can in the present economic era only be confined to a relatively prosperous minority. Most people are wisely advised to submit to a good deal of conformity in these material articles, provided that in other spheres they can possess their souls in freedom.

The danger is both quantitative and qualitative. If the salesmen of the mass-producers can tempt consumers ever to enlarge their demand for standard goods, they can gradually standardise the whole man and his family into servitude to a normal type, idealised as a '100 per cent American' or 'God's Englishman', with all the conventions and respectabilities moulded by the requirements of profitable business. Moreover, the subjection of the great majority of the producing population to a long working day of routine with subdivided labour militates against a discriminative use of their leisure and a finer cultivation of individual tastes and activities.

§ 11. It is, however, easy to over-state the case against machinery as standardiser. It is intrinsically improbable that modern capitalism can reverse the entire trend of human history which exhibits man as continually advancing from a group-life regulated in every detail, both of work and other

occupations, by a rigorous system of customs and tabus along a road of increasing opportunity for self-direction and individualisation. The customary regulation of primitive workmanship no doubt afforded some slight scope for personal skill in use of tools and handling of varied qualities of material, while most men and women could put their hands to many sorts of work. But within each primitive craft tradition was exceedingly repressive of invention or experiment, and the products showed very little tendency towards variation. The growing diversion and specialisation of labour that came with expanding markets gave far more personal liberty than it took away, for the widening human contacts, expressed in ever growing varieties of 'foreign' goods, shattered the conservatism of primitive groups by stimulating new needs and liberating individual choice in modes of life. The loss of variety in work was more than compensated by the increased variety and quantity of consumption.

There are those who will accept this view of industrial evolution up to the advent of modern machinery. Up to that time man, though specialised in work, maintained the mastery of his tools, and was, in effect, a skilled craftsman, and this skill of the producer gave some character and quality to the goods which were imparted to the consumer. The charge against machinery is that it has destroyed liberty at both ends, enslaving alike producer and consumer. The danger and damage may perhaps be admitted in what may be considered 'a transition period' in which the revolutionary factor, the machine, has evolved technically at a faster pace than the controls needed to secure its human services. This is only another way of stating that machinery and its economics have outrun their proper functions. What is needed is better machinery and more economies of routine production, so that all the goods and services required to satisfy our common human wants may be purchased at a reduced cost

in men-hours, under conditions of pay which leave a growing margin after these standard wants are satisfied. Whether satisfactory progress can be made along this line without some definite 'socialisation' of the routine processes remains the largest topic of economic controversy. The socialist insists that the standardising excesses of big business cannot be curbed so long as private profitable enterprise continues: the individualist insists that the clumsy hand of organised society will paralyse the springs of efficiency and progress.

This issue belongs, however, to our later discussion of the relations of government to industry. Here it is more germane to consider the resistances to standardisation offered by consumers in their capacity of human beings. Standardisation puts consumers in the unpleasant position of behaving as if they were exactly alike when they do not feel exactly alike. In other words, the mass-producer and his salesmen have to meet and overcome the unsatisfied personal predilection of the consumer. Mass production is always up against the fact that 'tastes differ', that what is one man's food is another's poison, and that in mental products *'quot homines tot sententiae'*. Where it is a question of the standard article, or nothing, men will sink their differences, but when they can 'afford' to indulge their private preferences, they will do so. The capacity of skilled salesmen to direct private preferences into common channels is, no doubt, considerable when herd behaviour, in reaction to a common environment, educates a herd-mind. The manners and the mind of Main Street are perhaps the greatest achievement of mass-production. But that achievement should not be overrated. By and large it has been the result of 'rush tactics', the sudden capture of the vacant minds of millions of busy extroverts immersed in the rapid material development of new cities by methods of improvised coöperation which had no use for critical refinements. It may be taken to represent

the last stage of the pioneer, converted to gregariousness. Already in America, not merely in the older settlements but in the Babbitry of the Middle-West, resistances are forming against the domination of the standardiser. It would be contrary to nature that a human stock, continuously recruited for centuries from recalcitrant protestants and other adventurous and self-assertive individuals in diverse countries of the earth, should permit itself to be planed down into a permanent uniformity of character and behaviour. All the efforts of mass-producers, advertisements, chain stores, mail orders, and educational 'hundred per centers', cannot produce the smooth type of purely receptive American that is desiderated. When conventional security and prosperity attain a certain level, the eccentric and the unique in tastes, desires and activities, will claim their liberty and satisfactions. Personal initiative and distinction are ultimately irrepressible: well-to-do, self-respecting citizens will want clothes that fit a body that is not the same as other bodies, foods suited to their peculiar physical condition, housing accommodated to the special make-up of their family. They will discover wider differences in their minds than in their bodies, and education will unfold new divergencies. Nor is this the evolution of rare natures, a cultured few. It is a return to that general process of individuation, checked and even paralysed, as it might seem, by the rapid rush of mechanical production with its mental adjuncts. It will not be possible for the beneficiaries of mass-production and standardisation to hold down indefinitely the urge of the unique in human nature, dictate their wants and satisfactions, mould their opinions and their valuations. *Tamen usque recurret!* Since people are not the same, they are always liable to discover their dissimilarity, and even to value that dissimilarity because it gives distinction. Thus they tend to bring an excessive spirit of nonconformity to combat the forces of standardisation. The new rich exhi-

bit this excess humorously in their conspicuous waste, their garish display, their passion for acquiring the rare or unique in gems, pictures, poetry, and books. America stands out more conspicuous in this struggle than other countries because of the pace and intensity of the standardising process. But in every industrial country the war between commercial standardisation and personality is being waged. Everywhere creative evolution calls for a new social harmony in which the similar and the diverse in human nature shall be reconciled in economic satisfaction. If in the present era the standardising forces seem too powerful, that is evidently due to a lack of social government, or in other words, to a preponderant power of the profit-seeking side of mechanised industry.

§ 12. In discussing the opposition to the standardising tendency we have chiefly confined ourselves to the consumer's attitude. But the revolt of the producer is not less significant. Though the subdivided workers in the standardised processes sometimes seem to acquiesce in their monotonous routine, as in the consumption of the quantitative products it turns out, their human nature gives no real consent to this starvation of their creative activities. But so potent is the reign of the machine-economy that no direct protest of craftsmanship is practicable for most workers. All they can hope to achieve is some alleviation of their narrow task by a shorter work-day, a five-days week, or longer holidays, affording time and opportunity for the varied activities inhibited by the conditions of their industrial service. To many reformers this seems the only path of progress, a shortening of the hours of labour which shall afford ampler time and energy to the worker in factory, mine, farm, workshop, or store, to run his automobile, work in his garden, and cultivate the other thousand and one activities of family and social life. A real curtailment of the supremacy of the machine seems to them utopian or even

undesirable. But as we have already noted, it is very difficult to liberate the worker by lightening his work, so long as in his capacity of consumer he is content to express his personal progress in enlarged demand for standardised goods. The full importance of qualitative individual consumption is only realised when account is taken of its reaction on methods of production. So long as consumers prefer to live exactly like their neighbours, will refuse all natural divergences of taste, will be content with the merely 'good enough' provided it is cheap and there is more of it, as workers they cannot win much liberation from their narrow toil. It is clearly to the education of the consumer and his demand for more personal and individual satisfactions that society must look for effective opposition to standardisation in work. If I insist upon a well-cut and exact fitting coat, I employ a skilful cutter, not a machine; if I want my house furnished and decorated according to my taste, I am liberating a number of workers from servitude to machinery and making artists of them. So long as only a few cultured well-to-do members of society are thus affected, the revolt against the machine will be inconsiderable. But if a larger and larger proportion of the population, endowed with security and sufficiency of livelihood, begin to substitute personal tastes and requirements for conventionality and conformity, a substantial reaction will take place upon the arts of industry. For all demand for individuality in products is a call for personal skill in workmanship. It is an advance towards artistry. For though a distinction is often drawn between a craft and a fine art, on the ground that the former is more consciously and crudely utilitarian in its aim, the difference is chiefly one of degree in creative consciousness. The craftsman works more to plan, and knows more clearly what he is after, whereas the finer artist gives himself up more freely to the guidance of the creative spirit. Moreover, he is working primarily for himself, for the realisation of his

idea, not for the satisfaction of the purchaser of his picture or his poem. But the craftsman also is interested in his work and in doing it well, irrespective of the purchaser, and in so far he is an artist, while the artist who produces 'pot-boilers' becomes a craftsman.

§ 13. For maximising economic welfare and still more human welfare, it is desirable that as much as possible of production and consumption shall participate of the nature of fine arts. Indeed, in every fine art the functions of producer and consumer are in a measure fused. The painter who paints under an impulse, the poet whom the spring inspires to sing, every writer who 'must express himself', is so far his own consumer. Put in economic language, he gets 'utility' at both ends, obeying the impulse to create and enjoying what he creates. If, as William Morris utoped, you could get a society in which everyone enjoyed his work, and the products satisfied all the needs of individual consumers, all economic problems would be solved. Indeed, the need for any specific economic science would evidently disappear. Economic activities would be merged in the totality of human behaviour.

But in our actual world of costs and scarcities, it is important to secure for the art of consumption its proper place as a factor of the economic system. Quantitatively and qualitatively, it exercises a directive and determinant influence upon the volume and character of production to which most economists have given a very scanty recognition. For while it is true that most alterations, additions, and improvements in standards of consumption are initiated from the producer's side, they must conform to the latest needs, interests and satisfactions of consumers, if they are to succeed as business propositions. Though it would be an overstatement to say that consumers' satisfaction was the sole end and purpose of all economic activities, seeing that some of these activities carry enjoyments of their own, any sound

social-economic theory must test economic progress mainly from consumers' satisfaction.

But here once more we encounter our task of evaluating economic satisfactions in terms of human values. Recognising that the bases of every standard of living lie in the reciprocal relations between man as a physical organism and his material environment, on the lines made familiar by Le Play and his followers under the triad, 'Place, Work, Folk', we also must recognise innumerable possibilities of error and waste in building on these bases. For, granting that the inherited dispositions and behaviour of man impose upon him certain ways of living with survival value, this biological equipment is less adequate in man than in any other animal to secure for him a satisfactory life. As reason supplants and displaces the specific animal instincts, in order to enable him to create and cope with changes of environment so as to get a fuller life, the possibilities of going wrong multiply. Such of these errors as are manifestly hostile to life are eliminated by natural selection, but those that do not deal early death may be retained and incorporated in a low customary standard. The empirical processes of trial and error by which novelties enter standards of consumption, whether initiated from the producer or the consumer side, carry no sufficient guarantee of genuine utility. Only so far as current tastes and appetites are reliable indices of human utility, only so far as we can identify the desired with the desirable, is the evolution of customary standards of life a sound human art. But it is needless to cite the ample evidences of the errors and wastes that are represented in every human standard of consumption. We have already noted some of these defects in the evolution of racial or class and in other ingredients of expenditure, even when the evolution is a slow regular process. Where it is rapid and irregular, as when white contacts with backward peoples transform old established standards, or introduce corrosive elements

with abnormally intensive appeals to animal appetites, a corrective is afforded by the expensive method of race suicide. Here, however, we are concerned, less with these violent cases where nature intervenes, than with those admitted defects of consumption which do not perceptibly impair the will or power to live and transmit issue, but which, forming part of the social heritage, impair the life and happiness of successive generations. Primitive man, normally regulated by custom and therefore unused to purely personal restraint, when exposed to novel temptations such as alcohol or opium, is notoriously incapable of resistance. Why the economy of his biological make-up should have equipped him with apparatus so detrimental to survival, biologists do not explain. Or perhaps such explanation is the office of theology with which such defects may rank as 'original sin'. But so potent are these possibilities of error that civilised governments now regard it as an obligation to humanity to regulate or prohibit some of these appeals to primitive appetites. Opium, alcohol, firearms, slaves, are to an increasing extent made illicit objects of traffic. No doubt such regulations are not wholly humanitarian in motive: violent disorder threatening white control or property, and the depletion or inefficiency of serviceable labour furnish subsidiary grounds for regulation.

§ 14. But the interest for us here is the large-scale expression of the principle of regulation of standards of living, so as to make them conform to standards of human welfare. All governments have been wont to exercise disciplinary power over their citizens, in the interest of health and morals, and this discipline has involved some regulation of consumption. Elaborate sumptuary laws have been devised to check luxurious expenditure, sometimes of general application, sometimes confined to certain classes. The *laissez faire* assumption, that every man should be left in complete freedom to pursue his own modes of living, has

never found full acceptance. It is true that most sumptuary restrictions were not wholly motivated by considerations of health and morals, but also had regard to matters of national finance, or internal trade. But though the largest interference with the freedom of consumers by modern governments is compassed by tariff restrictions, mainly for the protection of internal industry and for public revenue, the disciplinary motive still plays its part. The pre-war import duties imposed by Britain were, with the single important exception of sugar, confined to articles classed as luxuries, while such of the special war-duties as are retained on the protected list will mostly fall into this category. So far as such measures have the effect of raising prices to consumers, they must be regarded as helping to mould consumption into desirable standards, by reducing the consumption of, though not necessarily the expenditure upon, the less serviceable and desirable objects. The maintenance of the high taxation of alcoholic drinks and tobacco are generally acquiesced in through recognition of the comparative disutility of these articles of consumption even by those who purchase and enjoy them. The disciplinary effect of these measures is, however, sometimes contested on the ground that since these and certain other luxuries afford more conscious satisfaction in their consumption than do most necessaries, an arbitrary raising of their price does little to diminish their consumption, but diverts to their purchase a larger proportion of income, so curtailing expenditure upon more useful articles of consumption. A man, they say, will have his drink and his tobacco, whatever it costs. The elasticity of demand is, no doubt, small in what we may term the staple luxuries, but some restriction is exercised by every rise of price, and therefore taxation must be recognised as an instrument by which organised society helps to make the desired conform to the desirable.

But such discipline may be dismissed as slight and inci-

dental, compared with the large deliberate encroachments upon the rights of the private consumer in which most modern states engage. These encroachments are of two orders. Certain public services, health, education, recreation, civic improvements, and the like, involve the removal of an ever larger amount of income from the control of the private consumer, in order to carry out some communal conception of the desirable. So far as the taxation for such purposes is devised so as to tap unearned surplus, and is applied with reasonable discretion and economy to these social services, large additions to the well-being of the people are undoubtedly compassed. For such taxation in effect substitutes consumption of primary utilities and serviceable opportunities for consumption upon unserviceable luxuries, by methods which expand the use of these utilities and the service of these opportunities. Thus a double gain is effected, by a better distribution of the real income, and by converting a larger share of it into forms which in their consumption yield more human welfare. These large gains leave an ample allowance for whatever wastes are attributable to the inefficiency or other defects of official administration. For most of these public services are directly addressed to the provision of larger and better opportunities, such as health and education, not to the imposition of new habits of life upon individual citizens. They offer nutriment and stimulus to the enrichment of personality, without seeking to reduce it to a common standard. Good drainage, well-paved streets, free access to books, classes, pictures, open spaces for body and mind, medical and legal aids, insurance against the common risks of ill-health and accident, such elements of welfare can only be made accessible for all by collective finance and administration, and their united effect is an enlargement of the real liberty of all citizens to pursue successfully their personal ends.

§ 15. So much for the constructive consumption achieved

by the community as a contribution to a desirable life. The other disciplinary action takes shape in prohibitions and restrictions placed upon the private standards of individual consumption, either on the ground of social damage through disorder or infection, or by the assumption of a public right to safeguard the individual or his family against definitely injurious applications of purchasing power. How far the community may safely and advantageously go in this prohibitive policy is matter of reasonable controversy. There is, however, general agreement that certain articles of consumption are so dangerous to life, health, or morals, as to justify restrictions on their use and purchase. The prohibition of the sale of poisonous or dangerous drugs, and the restriction of the sale of others to authorised persons or at authorised times and places, or in limited quantities, the regulation of the sale of alcohol and of prostitution and gambling, the censorship of immoral publications, pictures, plays, and other entertainments, come under this category. They are to be regarded from the economic standpoint as definite attempts of society to raise the standard of consumption of certain persons or classes by eliminating elements of the undesirable.

How far governments should go in these constructive and restrictive policies will evidently vary with the different views of the value set on individual liberty on the one hand, and of the wisdom of governments upon the other. Here Mill's distinction [1] between self-regarding and other-regarding conduct cannot help us much. For the implied judgment that a person should be at liberty to injure himself in body or mind by any sort of foolish conduct, provided he does not injure others, has no relevance in the web of interdependencies presented by any actual society. The only absolute rule of social interference is the consideration whether such interferences conduce upon the whole, and in the long run, to

[1] J. S. Mill, *Essay on Liberty*.

enfeeble or to strengthen the will and capacity of the subjects of such interferences to realise themselves in ways serviceable to society. Here the value set upon the unique in personality will give powerful support to securing for everyone the right and opportunity to make his own mistakes and exercise his own will to correct them, provided that these mistakes and corrections are not too costly to his dependents or other members of society. But even such a principle does not carry us very far, for the social costs of such personal experiments will be assessed with wide differences by different minds. Much will depend upon the respective stress upon order and adventure. Those who prize adventure as a desirable cost and instrument of personal and social progress will favour the greatest freedom of conduct, for individuals are far more prone to initiative in life than are governments. It is no doubt possible to conceive governments accepting the advice of able experts upon various ways of life, and enforcing rules of conduct which would improve health, intelligence, and morals, so enabling its members to enjoy a longer and a fuller life than if left more to their private devices. Such regulation, positive and negative, might go far beyond the limits authorised by the accepted knowledge of to-day. Fuller understanding of vitamins and other food values, of glandular secretions and other determinants of health and physical efficiency, might lead to the evolution of a dietetic and other physical economy that would eliminate not only alcohol and tobacco, but innumerable other foods and articles of consumption, while prescribing for the various ages, sexes, and conditions of health and occupation, right regimens, enforced by education or coercion upon all members of the community.

Nor need such regulation confine itself to the material elements in standards of living. Good habits of every sort might be inculcated, early rising, eugenic marriages, right marital relations, rearing of children, the regulation of the

home in all details, social behaviour outside the home — there is no sphere of activity, whether involving economic consumption, or not, that might not be invaded by this expert rule. And why not? it may be said. Is not the willingness to take advice of recognised experts in every department of life the test of an intelligent man? Educated men and women are more and more willing to alter their customary diet, clothing, exercise, and other physical habits, on skilled advice. They even accept expert authority as to the pictures and music they shall admire, the books and plays that shall interest them. In a thousand ways the desired is adjusted to the standard of the desirable. Besides, it may be urged, here is no question of coercion, of enforced orders and prohibitions, but of a free intelligent acceptance. There are, however, as we see, modes of persuasion which do not differ essentially from legal coercion and may be much more unreliable. The wiles of skilled salesmanship, fortified by the forces of imitation and convention, are ill guarantees of the desirable. The vagaries of taste and fashion are mostly products of an interested expertise operating by mass suggestion. Yet in alert communities, avid for novelty and with growing wealth, they can graft all sorts of dietetic and hygienic changes, art interests, and religions upon class standards of life.

§ 16. The problem of the part which expertise may play in the improvement of standards of consumption is not, therefore, essentially a question of the limits and capacities of governments, though legal coercion has its special psychological contribution. It is the problem of a reliable, disinterested, and progressive expertism on the one side, and an intelligent assimilative public on the other. Even a willing acceptance of authority has its risks and costs in some weakening of individual initiative and experiment, but the net gain is indisputable, where knowledge and even sound taste are the criteria. Discussing this issue on its high intel-

lectual level in the question of the value of literary academies, Matthew Arnold makes this admirably balanced presentation.

"So far as routine and authority tend to embarrass energy and inventive genius, academies may be said to be obstructive to energy and inventive genius, and, to this extent, to the spirit's general advance. But then this evil is so much compensated by the propagation, on a large scale, of the mental aptitudes and demands which an open mind and a flexible intelligence naturally engender, genius itself, in the long run, so greatly finds its account in this propagation, and bodies like the French Academy have such power for promoting it, that the general advance of the human spirit is perhaps, on the whole, rather furthered than impeded by their existence." [1] If the balance can thus turn in favour of expert authority in matters where taste, tone, and other imponderables, so largely enter, the advantage should be much greater and more reliable in matters more amenable to scientific proof.

This balance of gain is, however, contingent upon a conscious, a willing, and a more or less intelligent, acceptance by the beneficiaries. In other words, it demands the active intelligence of the consumer. The legal or other enforcement of standards of consumption or behaviour, where this willing intelligent acceptance is absent, can only be defended on urgent grounds of social safety. For, where such spiritual contact between the expert authority and the beneficiary is lacking, several additions to the debit side of the account must be made. The expertism itself will harden and mechanise through lack of appreciative criticism. The rules it prescribes will be largely non-enforcible through resentment and suspicion of the public. Even if the expert rule be sound in itself, the fact that it has no real consent of the governed behind it, is gravely detrimental to its right observ-

[1] *Critical Essays.* "The Literary Influence of Academies."

ance. For any sudden enforced change in a long established order of living may entail consequences that lie beyond the purview of the expert. This is well illustrated from the history of the contacts of civilised with backward peoples when the attempt to enforce white standards of hygiene, decency, or morals has disintegrated the primitive group standards and even led to the extermination of whole peoples.[1] Such violent results are unlikely to occur among peoples inured to change and growth, as are all civilised peoples. But even then it is not safe to assume that an enforced elimination of some element of the accepted standard of living, or the addition of some new element, is without important disturbing reactions upon other elements in what must be regarded as an organic whole. Expert advisers, confined as they often are to study of particular reforms in hygiene, education, economics, morals, are seldom qualified to pass upon the total or net effect of the changes they seek to introduce into these delicately adjusted organic wholes. For long established standards of consumption are evolved under slow and continuous conditions of trial and error which have brought them into harmonies that are at least consistent with a measure of static well-being, whereas any quick interference with such delicate adjustments in the interests of progress may dangerously disturb these harmonies. The introduction of clothing into the 'standard' of Polynesian islanders is a notorious instance of such undesigned reactions. The rapid urbanization of stocks accustomed for countless generations to ways of life determined by their rural environment and work, without doubt carries heavy nervous damages. Among these damages some would count the too rapid imposition of an education calculated to over-cultivate an introvert disposition, and ultimately to paralyse the will to apply the bodily organs to the active

[1] Cf. Fox-Lane Pitt-Rivers, *The Clash of Culture and the Contact of Races.*

handling of the physical environment, for which 'purpose' they were created. But be this as it may, there are manifest dangers in all methods of reforming or enlarging the standards of consumption which do not take due account of the organic nature of these standards. For only thus can life be made safer, fuller, and more enjoyable.

§ 17. Thus by a long circuitous route we come back to our opening thesis, that economics is maimed for contribution to the art of human welfare by its virtual neglect of any scientific study of consumption. So far as consumption is brought under survey in most economic treatises, it is envisaged in standards of living, or standards of comfort. It is, indeed, significant that these two terms should be treated as synonymous, still more significant that comfort should be externalised in comforts mainly, if not wholly, of material composition. This perhaps is inevitable so long as wealth itself is realised in terms of money and the material goods it can purchase. But even when a more liberal view of wealth and consumption is taken, which includes leisure, education, and other non-material values involving economic expenditure, the essential difficulty still remains, that of assessing the welfare of an economic standard without reference to the organic human standard in which it is incorporated. For every alteration in an economic standard, as by the addition or elimination of some constituent of consumption, not only affects other economic elements in consumption, but the non-economic elements also. The simplest illustrations in recent times are prohibition and the rise of the automobile in America. Economists have made some interesting studies into the effects of both changes upon the family budgets of various classes of the community, showing the organic interactions between different constituents in standards of consumption. But the record of these changes is necessarily confined to the welfare expressed in budgets, whereas the organic complexes of satisfaction or welfare

affected by these changes far transcends the economic segment. It is likely that the effects of the automobile, for good or evil, upon the general way of life, including the social institutions, politics, ethics, and the whole *Weltanshauung* of Americans, may be far more revolutionary than any changes recorded in budgets or in 'comforts'.

§ 18. This brings us back to our main position, the impossibility of detaching economic from human satisfaction in the art of life. The economy of consumption brings out this teaching even more clearly than the economy of production, so far as the two are separable. For in consumption man is enabled, and indeed impelled, to preserve a more or less effective harmony of diverse activities, whereas in modern production he is commonly so specialised that his organic nature either disappears or puts up some feeble unavailing struggle on behalf of the atrophied activities. This specialisation of the producer for the supposed benefit of the consumer carries, however, two related dangers. The pace at which the modern technique and organisation of producing power enables and impels increased amounts and novel sorts of material goods to pass to the consumer tends greatly to exceed the power of the consumer to incorporate them serviceably in his standard of consumption. New half assimilated elements cause trouble and waste by disturbing the established harmony, while their strong successive attraction and prestige keep the worker in close subjection to the routine economy which continually complicates his mode of living. When J. S. Mill lamented the fact that machinery had done nothing to lighten the burden of human toil, he ignored half the damage of machine tyranny. For uncontrolled mechanical technique injures man in his capacity of consumer as much as in his capacity of producer. The worker tired by a monotonous day's work cannot get full use out of the new standardised goods placed at his disposal, nor can he check or rectify the disturbing influence they

exercise upon his older standard. The stories told of the eccentricities and extravagances of the new rich, or of workers with a rapid rise of pay, well illustrate this aspect of the waste. Mechanical production can easily outrun organic consumption. Human energy, therefore, increasingly demands that half the power of mechanical production shall be applied, not to producing more goods but more leisure, that is to say, to so liberating the producer from the strain and burden of specialised production that he may become a skilled consumer, with leisure and energy enough at his free disposal to assimilate the slower gains of scientific production, instead of being overwhelmed by them, while at the same time bringing his harmonised economic standard of living into proper relations with the non-economic activities and satisfactions of his life. This seems impracticable so long as profiteering rules the economic system. For the profit-maker can only gain his end either by working his machines and his workers to their full capacity, and turning out goods so rapidly that his skilled marketeers must induce the general body of workers to take their share in increased goods, not in increased leisure and other non-economic satisfactions, or by restrictions of output that give a wasteful or excessive leisure. Thus the humanist who regards the advance of civilisation and of personal well-being as requiring a diminishing volume of human interest and energy to be devoted to the economic functions, an increasing volume to the free arts of personal expression and enjoyment, will fasten upon the social control of the machinery of production as an indispensable condition for enabling man as consumer to secure the leisure and liberty in which alone an art of life may flourish.

# CHAPTER VI

## AN OPTIMUM POPULATION

§ 1. The relation of wealth to welfare finds its deepest expression in the population question. For if, as Ruskin held, "There is no wealth but life", the art and policy of economics must be governed by the consideration of how much life and what sorts of life are desirable. The callous fatalism, sometimes masquerading as Providence, sometimes as Nature, which led men to regard the processes of reproduction as no proper or possible subject for human control, has in recent times given way to an increasing disposition to regulate the growth and character of populations in acordance with considered policies. Three areas of interest have disclosed themselves, the narrow interest of the family, the wider interest of the nation, and the general interest of mankind upon the habitable earth. Since reproduction is directly regulated by the parents, the wider interests of a nation or mankind can only be implemented by influencing the family. The dominant feature in the modern situation, birth-control, is essentially a private policy of the family. It cannot for a moment be pretended that considerations of national policy, relating to the density or the quality of the population of the country, weigh appreciably with parents in determining how many children they will have. If a nation desires to check or stimulate, or to select, its population, it must bring material or moral influences to bear on parents. Parentage may be preached as a patriotic duty, or encouraged by bonuses or tax remissions: the economic burden of child nurture may be lightened by family allow-

ances, free schooling, free meals, and other communal services. On the other hand, assisted emigration may relieve congestion and help to portion out the world's population in accordance with economic opportunities. These national controls, however, are of small significance in comparison with the particular interests of the family in the rate of reproduction. As for a world-population policy, even regarded purely quantitatively as a rationing of population for the best exploitation and utilisation of national resources, it is in its infancy. For though considerations of private gain promote a distribution of labour power throughout the world with some regard to economic opportunities, political, racial, linguistic, climatic, and other barriers, taken in conjunction with the short-range and wasteful exploitation which commonly serve the profiteering purpose, afford a poor basis for sound distribution of world population.

§ 2. If, therefore, we accept the modern term 'optimum density' for our starting point in applying a criterion of human values to the population question, we had best begin with the narrow area of the home. We then perceive at once the invalidity of attempting to treat the population problem as a purely, or a distinctively, economic problem. For the blend of economic and non-economic motives which regulates the size of the family under birth-control is evident. Indeed, we recognise at once that 'optimum density' has a qualitative as well as a quantitative significance. With parental birth-control it is not merely a question of how many children but of the sort of nurture, education, and other opportunities that affect the quality of life. Yet there is evidently a sense in which economic considerations, and even spatial considerations are fundamental. In agricultural communities the adequacy of the family for the efficient working of the farm, and, reciprocally, the sufficiency of the farm for the support of the family, have a determinant influence upon the age of marriage and the number of

children. The general adoption of rigorous birth-control among the French peasantry is notoriously due to legal and economic limitations of landed property. Even among town-workers "the niggardliness of nature" has its indirect effect in limiting the family through its action on 'the housing problem.' The congestion of city areas is an intensive example of the part played by land in the control of population. But other considerations, largely economic, are more potent factors in birth-control as exercised by the industrial and professional families in most Western nations. The dispacement of the idea of a customary standard of living by the idea of a progressive standard of comfort in most modern parents is probably the strongest conscious factor in limiting the family. For the extra cost of each child is a manifest check upon the rise of a standard when conditions of the labour-market make it possible. Now that in one civilised country after another legal and social restrictions are put upon the early employment of children in wage-earning occupations, this check is more effective, for each child remains a longer burden on the family purse. Closely linked with this check are the influences that proceed from the new social, educational, and economic status of woman. Her new position, legal, economic, and political, impel and enable her to regulate the amount of maternity to which she shall be subjected. Birth-control is to a large extent a revolt against an otherwise excessive motherhood, excessive, partly, in its direct form as child-bearing, partly, in the narrowing of human personality due to absorption in child nurture and the close confinement to the home involved in bringing up a large family. The emancipation of woman in body and in mind is probably in some ways the most revolutionary movement of the age, as it operates upon the size and character of the family. For, as woman comes with ever clearer consciousness to realise the obligations of maternity, her instinctive aptitude for the rearing and education of the

young, fortified by trained understanding and larger authority in the home and the community, will give her the paramount influence in moulding child life. As women are no longer forced into marriage and maternity for a livelihood and occupation, the less marriageable and maternal types of women will remain single. Thus marriage itself as sex-union will gain, and a limited but willing maternity will contribute to higher skill in child nurture and a happier home life. There will be better and fewer children.

§ 3. Thus the population question in its narrowest form shows, firstly, how intimately the quantitative and the qualitative aspects are related, and, secondly, how the economic factors are merged with other non-economic factors, alike as causal determinants of birth-regulation and as results. The 'optimum population' comprising a family will vary, partly with the strength of the parental, especially the maternal, instincts; partly, with the health, economic strength and confidence, the occupation, social and extra-domestic interests of the parents, and not a little with the climate and physical environment. In this use of the term 'optimum' we must, however, bear in mind the limitations of its application to express the actual valuations of parents. How far the desired conforms to the desirable, must here, as in all other problems of welfare, remain a matter of controversy. Though there may be strong grounds for holding that parents may be persuaded to know their true interests and to follow them in this vital matter, doubts may still remain as to whether the motives of birth-control take due consideration of the more distant interests. Family affection, and the interests and activities attached to it, play an important part in most men's lives, and as they grow older this attachment to a younger and more active generation that is near and dear to them goes far to maintain the zest and savour of life. A childless or a one-child marriage incurs the risk of an old age of emotional poverty that is likely to be under-

estimated in the prime of life. A larger family circle is, in spite of all that cynics say, a better school of character and of experience than a small one, and furnishes more fruitful contacts with wider ranges of society. 'But is not this a selfish view', the rigorous restrictionist may urge, 'which subordinates the interests of the progeny and of society at large to the emotional needs of parents?' Here, however, opens an issue of strictly vital significance to every application of the concept of 'optimum population'. If human life be rightly held to contain normally a surplus of happiness, satisfaction, welfare, or whatever term for the desirable we may prefer, then the presumption is in favour of more lives, unless the increase causes a more than proportionate risk or damage to existing lives. The issue is best discussed when we come to consider the wider application of 'optimum population'. I raise it here as a passing demurrer to the assumption that the desires and interests of potential parents are the sufficient basis for a right determination of the size of the family. It does not, of course, settle, but expressly leaves unsettled, the question whether the economic and human resources of parents enable them to do so much better for a few than for many children that there is a true net economy of welfare in the small family. I suggest, however, that the value of life *per se* is liable to be left out of the computation, when the narrower application of the 'optimum' principle is applied within the family area.

§ 4. Granting that the progeny is the main consideration in the parental outlook of the population question, we must next consider how far this standpoint and policy harmonise, or can be made to harmonise, with the wider interests of the nation or mankind.

The wider conception of optimum density is concerned with the right rate of growth of the population on an area of land, whether it be a single country or the habitable world. I prefer to pose the problem in terms of 'rate of growth'

instead of mere size of population, because this presentation is more relevant to the actual conditions of an age when in nearly all countries there is a growth both of population and of the productivity of industries. Moreover, Malthus was right in setting his problem in terms of comparative pace, though he had no justification for distinguishing the 'geometric' ratio of the growth of population from the 'arithmetic' ratio of the growth of food supplies.

Given an increasing measure of birth-control, the direction and pace of which are mainly determined by economic factors, or standard of living, and constant progress in the arts of industry, the 'optimum population' will be a moving figure that will give the highest income per head.

Most of the exponents of this 'optimum' have severed themselves entirely from the subsistence basis and the special application of the Law of Diminishing Returns to agriculture which was adduced to support it. It is common ground that, not only for humanists but for economists, a bare subsistence and a law, even more malleable than 'iron', securing it, are worthless as operative principles in modern society. In discussing the desirable size or growth of population our first assumption must be that of the best average livelihood as expressed in economic goods. It will also be generally agreed that the rigorous distinction made between agriculture, as subject to a Law of Diminishing Returns, and manufacture to a Law of Increasing Returns, cannot be maintained. For taking a present view of the economy of any business, agricultural or manufacturing, there is always a limit beyond which further application of capital and labour will be uneconomical.

For any sort of production in its particular environment there are one or more types of business, best in size and structure, and further immediate enlargement of which is wasteful. That is all the Law of Diminishing Returns signifies, a static expression of human economy in general. But there is a

tendency for the optimists of population, in protesting against the excesses of the older economic antithesis and the static conception on which it rested, to ignore the not unimportant element of truth in the contrast of agriculture and manufacture. This applies to such a statement as that of Dr. Cannan when he writes, "At any given time, or, what comes to the same thing, knowledge and circumstances remaining the same, there is what may be called a maximum return, when the amount of labour is such that both an increase and a decrease in it would diminish proportionate returns. . . . If we suppose all the difficulties about the measurements of the returns to all industries taken together to be somehow overcome, we can see that at any given time, or knowledge and circumstances remaining the same, just as there is a point of maximum return in each industry, so there must be in all industries taken together. If the population is not large enough to bring all returns up to this point, returns will be less than they might be, and the remedy is increase of population; if, on the other hand, population is so great that the point has been passed, returns are again less than they might be, and the remedy is decrease in population." [1]

§ 5. The special character of food production is denied by this policy of lumping together all sorts of products for the estimate of a maximum return on which to base the 'optimum population.' Professor Carr Saunders puts it in a quite uncompromising way. "This idea of an optimum density of population is wholly different to that put forward by Malthus. To him the problem was one of the relative increase of population and of food; with us it is one of the density of population and the productiveness of industry." [2] "There is a particular density of population which must be reached and must not be exceeded if the largest possible income per head is to be obtained." Or, again, Mr. Lionel

[1] *Wealth*, p. 68.
[2] *The Population Problem*, p. 201.

Robbins says, "The optimum is not a fodder optimum. It has nothing to do with subsistence. On the modern theory an area is over-populated when total returns per head are less than they would be if the population were a little smaller, and this is a point which may be reached long before there is any question of pressure on the means of subsistence." [1]

But are we justified in taking "the productiveness of industry" and "the returns of all industries taken together" as the criterion of optimum density, without consideration of the differences in the pressure of the Law of Diminishing Returns to the various industries thus "taken together"? In estimating "the largest income per head" is it a matter of complete indifference how that income is composed, i.e., in what proportion food and fuel figure, as compared with manufactured goods? Suppose that, by means of an increased population set to factory work, the total income per head were increased, a smaller quantity of food per head being more than offset by the increased quantity of motor cars, watches, and drugs, would this total increase of income per head justify a higher density of population?

Such a contention can only be sustained by showing that all industries are *equally* subject to "the law of diminishing returns". Is this the underlying assumption of our 'optimists' and is it capable of proof? There is undoubtedly much reason for believing that modern chemistry and bacteriology, as applied to agriculture, can do much to increase the absolute and the differential fertility of the soil for the production of many foods and raw materials. But can it be maintained of agriculture as a whole that its increase of productivity per unit of applied labour, or per head of the population, has been, or is likely to be, as rapid as in the staple standardised manufactures which form so large and increasing a proportion of our real income?

There are two sets of difficulties in applying to agriculture,

[1] "The Optimum Theory of Population." *Œconomica*, 1927, p. 120.

and indeed to other extractive processes, the full economics of power-driven machinery, the standardisation and specialisation which are the main sources of enlarged productivity in the processes of manufacture and transport. The first set is physical, the almost infinite local variations in the chemistry of soil, in situations, levels, climate, weather, and the flora and fauna which are the raw products of agriculture. Though there are in some countries, such as parts of Central Asia, Argentina, Canada, and sections of the Middle States of America, large tracts of land so uniform in character that machine-economy can be applied to them with great advantage, even in such cases the uniformity of the soil in texture, contents, situation, is broken by so many minor irregularities that it can not compare with the carefully graded materials to which most manufacturing processes are applied. And such large plains or steppes form but a small part of the cultivable surface of the earth. The high economies of standardised production, obtained in modern large-scale manufactures, are applicable in a very low degree to most farming processes. Nor is it likely that these limitations can be so fully compensated by cheap nitrates and other fertilisers, or by Mendelian and other biological discoveries, as to set agriculture as a whole upon the same pace of increasing productivity as obtains in the great industries.

The other set of difficulties is human, connected with the nature, habits, interests, and temperaments of the great agricultural populations. The slowness with which improvements in agricultural machinery, in rotations of crops, crossing and breeding, and the skilled observation and records needed to convert farming into a reliable business, have made way, even in civilised countries, renders it extremely hazardous to compute scientific contributions at anything like their full value in the actual conduct of agriculture. A narrow, dogged conservatism, a refusal to learn, to think, and to experiment, or to coöperate with neighbours even for the

most obvious material advantages, accompanied by a deep suspicion of city-folk and any notions that come from them, prevalent among the farmers and peasantry in almost all countries, has an intimate bearing upon the operation of the law of diminishing returns, which is no doubt in its ultimate basis more psychological than physical. Its operation hinges more on the stupidity of man than on the "niggardliness of nature".

§ 6. Bearing in mind these practical considerations, we can not assent to a treatment of 'optimum density' that pools all sorts of products as equally affected by the law of diminishing returns. This judgment is supported by the statistics of price-changes during the modern period, which show a general tendency for agricultural produce to exchange on favourable terms with the products of manufacturing industries. The rate of food production must even now be regarded as the limiting factor for 'optimum density,' if a purely physical-vital interpretation be given to that term. There are, however, other difficulties in regarding "total income" as the test. How is income to be estimated? Dr. Cannan is evidently uncomfortable in his formulation of the optimum principle. For he qualifies his statement by the words, "If we suppose all the difficulties about the measurements of returns to all industries taken together to be somehow overcome" etc. But how overcome? To apply "the measuring rod of money" clearly will not serve. For we cannot correlate money income with the real income which is alone relevant for an 'optimum'. A bad harvest, or a restricted output of industry, may not, usually does not, signify any corresponding loss of money income, either for the sellers of the short supplies, or for the community, though representing a serious damage in real income per head of the population.

If, again, we take 'real income', we are still in difficulties. Take the case of two isolated economic areas, one with

richer natural resources, the other more highly developed in the industrial arts. If the real income per head of the population were equal in the two areas, there is no reason to suppose that the optimum density would be equal. The ampler supply of foods and raw materials in the one case might validate a higher density of population than in the other, a larger proportion of the higher population being devoted to the industrial arts operated on a lower level. Thus the real income in the two areas would be equal, but the populational density would be different. Or, putting the case conversely, if the populational density were equal in the two cases, the real income per head would be different. Granting that in industry, as in agriculture, the law of diminishing returns is operative, its more tardy operation in a fertile country will affect the optimum density, making it possible to support a larger population at a given real income than in a less fertile country. In other words, the composition of the real income is a relevant consideration in determining the optimum.

Not less important, of course, is the question of the distribution of the real income, in determining the optimum density. Where a large proportion of the real income is consumed by a small minority in luxurious goods and services, the optimum density will be lower than where the same volume of real income is evenly distributed, a larger proportion of it taking the shape of a higher general standard of physical comforts. The 'total income' of a country, or the average income per head cannot settle the optimum density, without regard to the distribution of the income.

Again in giving a human valuation to any given 'real income', we ought to take due account of the conditions of producing it, its human costs, as well as of the utility of consuming it. This has an obvious bearing upon optimum density. For of two equal total real incomes one may be produced under much lighter, more interesting, more enjoy-

able conditions, than the other, making the subjective values of the two very unequal. Should not this affect populational density? Will not these preferable conditions of production validate a larger population, living at a somewhat lower average of objective income? Most workers would prefer a somewhat smaller income, if it could be earned by lighter and more agreeable work under conditions of greater personal freedom. A larger population working on such a basis might earn a lower average income, as estimated in money, or in objective products, but it would be compensated and raised to a higher subjective level by its reduced human 'costs' of production.

§ 7. Hitherto I have taken current valuations of production and consumption as the criterion. But if, as may be argued, actual current estimates and desires of men, though normally accordant with the 'desirable', are liable to short-sightedness and other defects, which fuller knowledge, wider outlooks, and longer perspectives may correct, this 'total income' or 'average income', upon which the optimum density depends, should be liable to this more intelligent readjustment. Doubts, as we have recognised, will arise as to the reliability of authorities claiming expertise in human valuations. But some corrections of current valuations are embodied in governmental controls and in enlightened public opinion, checking the free play of current desires by standards of the desirable. So far as public policy can be directed to secure an optimum density of population, the economic income taken as its test should be reckoned in terms of the real long-range benefits it contains in its production and consumption.

§ 8. So far we have discussed optimum density on purely economic considerations. But since our organic standpoint obliges us to keep continually in mind the interaction of economic and non-economic activities, impulses, and values, it is evident that the problem of optimum density cannot,

even as a quantitative problem, be solved on the most enlightened treatment of purely economic income. This, indeed, is recognised by Carr Saunders, as a necessary deduction from his rejection of food production as a natural check. "There does not seem to be any reason for supposing that there is any limit to the increase of skill in the production of food, and that, therefore, there is any limit to the desirable number so long as the criterion remains economic. This suggests that at some period mankind will have to introduce another method of estimating what density is desirable, as it is clear that the economic advantages of increase somewhere come into conflict with other ideals as to desirable social conditions. In other words, a larger income would not be worth while having if it necessitated too large a population." [1]

What are these non-economic considerations? Such congestion of population as is to-day presented in Belgium or in South Lancashire may be considered detrimental to physical and moral health. If a certain reasonable level of economic comfort and security has been attained, the demands of a free personality will turn more urgently to fresh air, scenery, elbow room, and privacy, contacts with wilder nature, as vital contributions to a satisfactory life. His larger leisure and liberty from economic tasks will lead to more and more stress upon these non-economic factors. The probably impending dispersion of great city populations, owing to improved facilities of rapid transport and of the distribution of industrial power, must at no distant time raise residential planning into a matter of first-rate consideration. For every dispersion of congested centres will otherwise reduce larger and larger areas to semi-congested conditions, narrowing the area of true country.

Such considerations may dispose us to accept a lower density than mere considerations of maximum economic in-

[1] *Op. cit.*, p. 309.

come would warrant. But here another issue, to which brief reference has already been made, comes up. The human value attributed to life *per se* must have some effect upon our view of the optimum density. If we hold life in itself desirable, containing a surplus of desirable over undesirable consciousness, a net income of happiness, then the more lives the better, unless the greater density reduces the value of the average life so much as to produce a smaller aggregate income of happiness. Here there is, of course, much ground for divergent estimates. To the optimist, life, as such, has great value: to the pessimist, little. Besides, the same person's valuation of life for himself and for others will vary with varying conditions of age, health, knowledge. But though valuations may differ widely, there is, I think, a general agreement that life, as such, is desirable, and must be taken as possessing under average conditions a surplus of satisfaction or happiness. The fact that nearly everyone prefers to go on living must be taken as strong corroborative testimony to this position. We may, therefore, hold that unless the greater density, either by restriction of physical subsistence, impairing of health, or damage to the enjoyment of seclusion and scenery, seriously lowers the value of the average life, there is a presumption in favour of a population that may exceed the optimum density as measured in terms of average economic income.

§ 9. But this attribution of value to life as such necessarily introduces considerations relating to kinds or qualities of life, not confined to the mere reactions of density upon life-value. Here we enter the controversies relating to the virtues or values of different stocks and social or economic grades within national areas, and the worth to themselves and to mankind of the different races and types of human life among the population of the world. While I have no claim and no intention to enter the arena of this tangled controversy, and pronounce upon the relative importance

of inborn qualities and environment in determining the values of a human personality or a community, it is evident that judgments upon this issue are highly relevant to any policies that are adopted either by individual parents or by collective action for the regulation of the growth of population. They will also necessarily have an important bearing upon our estimate of economic measures relating alike to the production, the distribution, and the consumption of wealth. For, if we hold that certain strains or stocks within a nation or a race are, in virtue of inherited characters, more valuable to mankind and to themselves than others, we shall favour economic and other policies which encourage reproduction from such strains or stocks, securing to them ampler opportunities than are afforded to less desirable strains or stocks. Similarly, so far as any world-policy emerges from the growing solidarity of international relations, it would encourage the survival and growth of peoples or races who were held to be more capable of advance in the arts of civilisation and of taking a useful part in the development of the natural resources of the earth lying within their direct sphere of activity.

Such policy, administered, as is not unlikely, from an excessive regard to early economic exploitation, would by no means necessarily imply an encouragement of higher or intrinsically 'fitter' humanity. It might mean the stimulation of submissive types of man, physically and mentally adapted to servile labours under superior employers, rather than of higher and more independent types. The Negro might be preferred to the Indian in America, the more depressed Bantu tribes to the Basutos or the Zulus in South Africa. The idea of a deliberate policy of rationing the population in the various backward portions of the earth, by some central international authority concerned primarily with the conservation and development of the world's natural resources of oil, coal, rubber, iron, cotton, food-stuffs, and

other supplies for the world-markets, may seem too remote from present possibilities to deserve any consideration. But there is ample evidence of the effects of purely economic policies, wielded by financial and industrial interests for short-range business ends, in determining the growth of the decline of populations in backward countries under their control without regard for what we must term the intrinsic values or happiness of the peoples affected. In organised slave-owning communities slave-population was stimulated with regard to the economic value of the slave as a forced labourer or a chattel in the market. In the various subterfuges for slavery called 'forced labour' the greedy demand for immediate supplies of cheap workers often reacts in a lower birth rate, partly owing to removal of the adult males from their family or tribal life, partly owing to the unhealthy or dangerous conditions of the work to which they are set. This leads, as in Kenya and elsewhere, to a demand for some further "inducement, stimulus, or pressure" to be put upon the native tribes and families which had not responded to the earlier demands for wage-workers. Here once more we touch the large issue of the effects of white contacts with backward peoples. In many cases, as we recognise, both the economic pressure and other civilising influences are found to reduce, sometimes to exterminate, a native population, without regard to the capacities of happiness, or even the possibilities of progressive civilisation under good guidance, which such populations may possess. Such injuries are commonly due to a shortsighted selfish type of imperialism, in which the political as well as the economic control of native populations and their lands is undertaken by concessionaires, planters, and other business men engaged in the rapid exploitation of the natural resources of the country by workers whose sole value consists in the profitable toil that can be extracted from them by a combination of economic and political pressures.

The point of vital importance is that, whatever collective policies at present operate in determining the growth or decline and the selection of types of population in the backward parts of the world, predominance is exercised by business men for business purposes without proper regard to the welfare of the populations of these countries, or of that humanity of which they are constituent parts. Such qualifications of this short-range economic control as are exercised by good-hearted officials or zealous missionaries are often so ineffective and so ill-directed as not seriously to temper the economic dominion.

Yet, if men were rational beings fully alive to their real interests as members of a continuous human society, in occupation of an earth, whose resources not only of economic wealth but of the wider contents of human progress and happiness it was their duty to develop, they would regard as their largest and most important task the determination of the sorts and sizes of the populations of the different countries, so far as such determination of conduct, primarily performed by individual parents, could be made effective. They would seek from science and history, as well as from considerations of immediate utility, to come to some agreement as to the respective claims of inherent superiority, physical, intellectual, moral, æsthetic, put forward on behalf of the several races and nations, in order to know what types to encourage and what to discourage, having regard to climatic and other environmental factors, and the acquired adaptability of peoples for successful life in the country they have long occupied. The whole issue of assisted or impeded or directed emigration would be determined, not on lines of selfish nationalism or purely economic needs as now, but by considerations, partly economic, partly human, of the capacity of certain areas to support a larger population with advantage to the output of wealth and to the prosperity and happiness of the whole population thus enlarged, not ignoring

the question of the physical, social, and cultural assimilarity of the newcomers by the older population. Much might be urged as to the necessity of an internationalism working, however slowly, towards this idea of the right of mankind as a whole to determine what numbers and kinds of men shall occupy the different areas of the earth. Remote as this ideal may be from practical policy, it stands as one of the chief ultimate demands to be achieved, if man is to become the master of his destiny. It will not in the long run be possible for mankind to acquiesce in the obstructive policy of such a people as the Australians, who claim as an exclusive property vast tracts of territory of which they make and can make no effective occupation. Until recently general embargoes upon immigration into thinly populated countries have been rare, though racial discrimination of immigrants has long been practised. For the ruling classes in new countries have commonly found their economic interests served by liberal flows of outside labour. But, as organised labour within such countries has gained a larger measure of political influence, a more rigorous policy of exclusion, based upon shortsighted considerations of high money-wages, has impeded alike the development of their country, their own share in the great productivity (which a liberal immigration would have secured), and the increased contribution which would have been made to the economic prosperity of mankind.

§ 10. There are, of course, in many instances sound social and political reasons for restricting the pace at which the less assimilable races or classes of would-be immigrants should be admitted. But the wholesale exclusion, on grounds of race or colour, of peoples who are often the most available and serviceable occupants of otherwise uncultivated and uncultivable areas, is simply a selfish, unjust, and injurious assertion of a collective right of property by proprietors who cannot use their property themselves and will not let others

do so. This hard-shell nationalism, based partly upon short-range and fallacious economics, partly on racial prejudice and political timidity, is one of the greatest obstacles to the economic and the moral progress of mankind. Doubtful though it may remain whether international government can ever become strong enough and intelligent enough to assess the intrinsic human values of different types and races of mankind, so as to offer encouragement and assistance to the more desirable, and to direct the flows of desirable immigration into channels most serviceable to the immigrants, the country they leave, the country they enter, and the world at large — nevertheless, modern humanists must work towards a goal whose attainment is essential for a peaceful and progressive future.

Such a rationing of the population of the world on a joint basis of inherent human value and adaptability to life and work in particular environments, regarded even as a dim and distant possibility, implies an advance of the related sciences of eugenics and psychology almost beyond the dreams of present workers in these fields. Though the differences, physiological, psychical, and environmental, between the populations of the West European countries are very small, as compared with their similarities, the tendency to stress these differences and to assign to them high values breeds the wildest generalisations regarding the essential characteristics of racial or national groups. Englishmen are phlegmatic, silently sentimental, practical, averse from logic, incurious of ideas, and so forth! Frenchmen are excitable, demonstrative, neat and precise in the arts of living, 'immoral' in the English sense, realists and rationalists in political affairs! Germans are slower-witted, laborious in body and in mind, romantic, submissive to authority and organisation, clumsy mannered! Would it be possible for any Congress, however well chosen, to agree upon the element of truth that may underlie such generalisations, or upon the

human value of such special characters in their bearing upon policies affecting the constitution of the population of the world, such as birth-control and the course of immigration?

§ 11. But, if such problems of qualitative population, racial and world eugenics, lie outside the present limits of useful consideration, the same judgment does not apply to problems of intranational eugenics. The State in its financial policy, through tax allowances, family allowances, insurance benefits, in expenditure on public health and housing, in immigration laws, public education, and the wider dissemination of knowledge of heredity and birth-control among various grades of the population, can do much to influence the birth rate and survival rate of the various economic and social classes or stocks in the nations. However much we may differ as to the respective importance of the influences of inheritance and nurture in the make-up of desirable inhabitants, and as to the composition of values in 'the desirable', nobody will deny that some desirable and undesirable characters, physical and mental, are transmitted by heredity. Everyone knows certain families whose physical and mental make-up, as attested by several generations, is markedly above the average, while other families exhibit consistently infirm qualities of body and mind, though nurtured in similar physical and social environments. In such cases we generally recognise an intimate relation between physique and 'disposition', including in the latter term most of the qualities that go to make temperament and character. Mr. Carr-Saunders, with some other psychologists, is disposed to regard disposition and temperament as more inheritable than the definitely intellectual powers. Even the 'arrest' of intellectual development, so often observed in the education of black peoples, he is disposed to regard as "not so much an inevitable result as the coming into play of a particular tradition", i.e., "the absorption at a certain age in practical matters, in tribal habits and customs, in sex and the settling down to a

normal married existence as much on the lines of their ancestors as is possible under the altered conditions." [1]

Against this view, however, we have a body of testimony from teachers, with opportunities of comparing the development of blacks and whites, or blacks and Amerindians, brought up together under similar physical and cultural surroundings. A certain quickness of memory and assimilative power in childhood is found among the blacks, but in concentration, reflection, and reasoning, they are inferior, and early puberty checks their general mental development. While it is generally admitted that mental characters are less closely determined by heredity than are physical characters, the tendency among some psychologists to stress social heritage and tradition, as the main determinants of intellectual and even moral efficiency, cannot be maintained. For quite apart from the abrupt dualism in the relations of body and mind which it assumes, it ignores the fact that, for the individual, social inheritance and tradition, as indeed every environmental factor, are primarily opportunities of which the individual may avail himself with more or less success. And the aptitude for utilising these environmental opportunities will depend mainly upon his inherited germinal constitution. In wresting a living from a raw physical environment, not only the bodily strength and endurance needed are a germinal endowment, but the stimulus and capacity to acquire and use the various skills in handling the environment. Nor can one seriously doubt that the superior capacity to assimilate the common stock of knowledge and to use the instruments of the intellectual life depends upon the inheritance of a sound physical brain, and nervous, nutritive, and circulatory systems able to give it effective support. However highly we may estimate the heritage of knowledge, skills, language, traditional culture, institutions, and environmental changes, that together form

[1] *Op. cit.*, pp. 397–8.

the corpus of civilisation, we must not forget that the effective utilisation of these opportunities depends upon the physical inheritance of men. In fact the larger and the more various and complex this social heritage, the greater the need for a population whose sound but diverse strains and stocks are accommodated to the fullest use of such a heritage. A signal disservice is rendered by educationalists who maintain that differences of germinal constitution count for little, nurture and training for almost everything.

No doubt it is true that the great work of germinal selection and changes has taken place in the remote ancestral past, and that most practical work towards the improvement of the human lot lies in environmental changes. But, even in the interest of securing and utilising these environmental changes, we ought not to rule out such rational selection of stocks as may preserve as far as possible the qualities of energy, enterprise, initiative, and coöperation which are prime conditions of social progress.

§ 12. In order to pose the qualitative problem of population in its sharpest outlines, let us take the imaginary case of a eugenic despot in a position to regulate absolutely the marriages and birth rates of the whole population subject to his rule, and concerned to exercise his power for the good of the community. The problems would range themselves to his mind in the following order.

First, he would form in his mind some image of the composition of a sound well-working community as an organised whole, this composition implying a coöperation of groups of persons performing different functions. Each person would be conceived as a trinity; that is to say, first in his fundamental structure and outfit, physical and mental, he must resemble closely all the other persons of the community. For without this common character there could be no community. Next, he must be conceived as a member of some group undertaking some special function in the corporate

life, by virtue of his having certain aptitudes or qualities favourable to participation in this sort of work and the sort of life affected by it. Lastly, he must be conceived within this group as a unique personality with capacities of activity and enjoyment, which, so far as realisable, may not only give fuller expression to what is 'in him', but may enrich the life of the community by creative leadership. Having thus got in his mind this image of the place of persons and of groups in the community, our despot would have to consider what types of 'character', physical and mental, he would like to produce for membership in his community, and in what proportions.

Then, having due regard to the three sorts of values in his members, he would have to consider how far the desirable qualities or characters, physical and mental, were inborn and could be favourably affected by selected parentage. Firstly, he would have to decide what sorts of unions could yield in offspring the desired results. How far the possession of the fullest knowledge at present available would be able to secure for him a reasonable amount of success in his eugenic project, I leave to the judgment of those best qualified to judge. It would probably be held that if, like Frederick the First of Prussia, he sought to produce physical giants, selected unions might give him what he wanted, and that certain other distinctively physical types might be encouraged or discouraged. But though mental character may be directly dependent upon physical character, the correlations between the two remain so obscure that the same success even as regards the more general characters of will, intelligence, and temperament could not be expected. Intellectual giants could not be bred with anything like the success in breeding physical giants, and for the finer and more complex qualities of mind and morals, so far as they are deemed inheritable, the experiments would be still more hazardous.

§ 13. For any existing, or reasonably possible community,

the qualitative population problem is even more difficult, both as to the sorts of beings that are 'desirable', and as to the methods of securing them. There would, we suppose, be a pretty general agreement upon certain factors of physique, intelligence, and temperament that were desirable, and a much closer agreement upon certain other factors that were undesirable. For there is truth in Dean Inge's aphorism, "We don't know what sort of people we want, but we do know what sort of people we don't want".[1] But it would perhaps be more true to say that we know more about the parentage and other conditions which give us the people we don't want, than we know about those which give the people we do want. This at any rate applies to the extremes of the desirable and undesirable. We do know something about the parentage and environment that will give us cretins, morons, syphilitics, criminals, drunkards, and other definite types of physical and moral weaklings, and in some of these classes parentage appears to be of paramount importance, while in the others, where environmental conditions appear to count heavily, the instability of temperament and lack of resisting power which make them count must be attributed mainly to heredity. We do not know anything like as much about the condition, parental or environmental, that will give us geniuses, philosophers, saints, or even great film-actors or baseball players. It is easier to cross for cretins than for saints and inventors. The ways of genius are notoriously wayward. The wind bloweth where it listeth! While, however, we cannot do much to arrange the parentage for genius or high talents, we can do a good deal to enable inborn genius or talent to discover and assert itself. A wisely directed community might go a little further. Recognising that certain families had revealed some highly serviceable characters as germinally dominant, they might educate a sense of obligation to transmit the strain. An enlightened public opinion might enforce

[1] *Outspoken Essays.*

this obligation, and, where necessary, out of public funds for the endowment of genius, remove the merely economic obstacles which encourage celibacy and birth limitation. Considering how much the growth of the higher arts of civilisation owes to the conspicuous talents of a few, it should not be deemed impossible to devise methods of conserving particularly valuable strains that by several generations' experience have established their dominant character. Most eugenists appear, however, to concentrate attention mainly upon the elimination of definitely bad stock, by the prohibition or discouragement of marriage and reproduction. Here among the educated classes the spread of knowledge and the pressure of enlightened public opinion ought to be, and are, increasingly effective checks. But, in proportion as the stocks it is desirable to eliminate are, partly by the social defects that attach to them, most prevalent among the lower social and economic strata of the population, the difficulty of reaching them by moral suasion is greatly enhanced. It is also held that some of the worst defects are physically connected with high fertility, while in the lowest social strata the general insecurity of livelihood engenders a self-protective recklessness that manifests itself in promiscuous unions and unconsidered parentage. Under the more humanitarian policies of our time, the survival rate of the fruits of such undesirable unions is raised, to the physical and moral detriment of the population as a whole. Some progress is made in the removal of certain types of physical, intellectual, and moral defectives from free association and transmission of offspring, but the high fertility of large bodies of definitely inferior stocks remains a drag upon the progress of society. This judgment one may form without endorsing the hasty opinions of differential class-values which infect some eugenic arguments. The disposition to take the existing social-economic strata as reliable indices of human values is perhaps natural enough among students belonging to the

higher strata. Some eugenists adduce the higher birth rate, and, under modern humanitarian regulations, the higher survival rate, of the lower grades of our city populations as a dangerous dysgenic tendency leading inevitably to national degeneration. This interpretation of the statistics of birth rate in the different social-economic strata rests, however, upon two assumptions, neither of which has the validity attributed to it. The first is the assumption that success in achieving a high pecuniary status by one's personal efforts, or in maintaining such a status achieved by one's ancestry, is a guarantee of a socially desirable character. This naïve psychology is that of Jack Horner who "put in his thumb and pulled out a plum and said 'What a good boy am I' ".

§ 14. That some personal qualities contributing to success in the modern commercial or professional world are socially desirable is indisputable. Sound health, capacity of concentration, quickness of response, memory of facts and persons, reasoning in practical affairs, strong will, 'common honesty', courage in emergencies, tact in handling men, certain powers of imagination and 'intuition' in reading situations, rank high among these qualities. Few of them belong to the higher or finer spheres of the intellectual or moral life, at least in their serviceable business applications. Some men of great intellectual or creative gifts have made money: great pecuniary success in the higher professions commonly implies an intellect above the ordinary level. But though a few magnates of finance, industry, or commerce show capacities of reasoning, imagination, and will far above the ordinary, normal success in business, or even in the professions, seldom attests high intellectual or moral qualities. Among the characteristics leading to success the more important belong, as Mr. Carr-Saunders well points out, to the temperament and disposition.

"Among the temperamental characteristics leading to success we may note low degree of fatiguability, high power of

recuperation, rapidity of response, hopeful nature, vigour, energy and healthy nervous tone. Among the characteristics of disposition we may note similarly the instincts of self-assertion, of emulation and of acquisition." [1]

Now most of these characters must be deemed to be 'desirable', in the social as well as the individual sense. But not all. Self-assertion, acquisition, and the related desire to dominate, frequently impel conduct that is socially undesirable. Other qualities of temperament and disposition promoting individual success are definitely anti-social. By common consent, a certain ruthlessness and callousness to the interests of other business men and the community, a willingness to sacrifice those finer codes of ethics that exceed the bounds of 'common honesty', a cunning of concealment and of strategy, are eminently conducive to business success. Nor can we ignore the fact that definite dishonesty, sometimes associated with illegality, and a gambling temperament may under certain circumstances be conducive to success. So far as it is possible to generalise upon the modern economic situation, we might say that the physical, intellectual, and moral factors in an unimpeded instinct of self-assertion through acquisition are the main determinants of that success upon which our eugenists have staked their case. Now, as we see, a separate consideration of these factors shows some to be socially desirable, others not, and there is no criterion for judging which contribute most to economic success. We may say, however, that the normally successful business man, taken in his total make-up, is not an obviously desirable type from the standpoint of high social serviceability. Great sensitiveness of feeling and disinterested intellectual activity are precluded from his character as being positively detrimental to success, while there is little if any place for the cultivation and display of the higher and more refined activities of the intellect.

[1] *Op. cit.*, p. 471.

The other assumption upon which the eugenic test of comparative class birth rates is based, is that generations of selection have drawn from the general body of the population those stocks possessing the germinal aptitudes for pecuniary success, leaving the legitimate presumption that "The poor in the loomp is bad". This presumption, however, supposes a degree of equality of opportunity and a liberty of movement for which the facts of the case give little warrant. It may, indeed, be said that the lure of great city life has for some centuries been draining the 'home counties' in England of the abler, more energetic and adventurous stocks, to feed the population of London, and that the same is true of the areas of country adjoining all our great industrial centres. But, apart from the question whether this more adventurous section of the rural population is 'better' in the full sense of more desirable than the stay-at-homes, the eugenic class-test demands economic opportunities for all town dwellers which have never been effectively supplied. What proportion of the country labourers drawn into London life during the past two centuries have succeeded in rising into the higher pecuniary grades, or conversely, what proportion of the London well-to-do have been recruited from these elements? While no definite answers to these questions are forthcoming, we can find no ground for accepting the idea that the sifting of 'successful' characteristics among our population in city life has been so general and so severe as to deposit the population as a whole in pecuniary grades corresponding to the physical, mental, and moral virtues of their members.

The utmost that can be concluded legitimately from such analysis is that certain innate qualities, physical and temperamental, to a less extent intellectual, may be expected to be found more highly developed in the richer strata of the population, certain definite defects in the lower. But as to desirability, from the standpoint of the community or human

services, our judgment is further impaired by the reflection that the conditions of selection in the economic struggle may be, and very likely are, such as to preclude from success some of the finest types of intelligence and morals, because these fine qualities are incompatible with other ruder and lower qualities that are essential in the coarser activities of the upward struggle.

In examining the concept of the 'economic optimum' of density we saw grounds for concluding that distinctively economic considerations of maximum income were not valid indices of a size and distribution of population, either for a family, a nation, or the world, in conformity with a standard of the humanly desirable. Our consideration of the qualitative population question leads to a similar conclusion. The composition of the desirable population for any country, or for the world, cannot rightly be determined by exclusive consideration of the factors conducive to economic success either in the present economic struggle, or even in a reformed economic society. For the qualitative population question must regard man not exclusively, and in a well-regulated community not primarily, as a producer and consumer of economic goods, but as a human being fit for a civilisation in which the distinctively economic aptitudes are destined to fill a smaller proportion of a more spacious and more varied life.

## APPENDIX TO POPULATION

### A Point in Immigration Policy

A point is often raised in immigration policy which has an important bearing both on the quantitative and the qualitative aspects of world-population. It is thus stated by Professor East, in an address at the recent World Population Congress at Geneva: "If emigration takes place from a country in which there is population pressure to a so-called

under-populated country, there is an immediate increase in the birth-rate of the former country which restores the equilibrium." This is, of course, only a reaffirmation of a position taken by many leading writers on the population question from quite early times. Mr. H. P. Fairchild quotes a statement of the position from a copy of the American Mercury in 1792 and cites a number of nineteenth century economists in support of the view.[1] It is sometimes argued that the almost automatic filling up of the areas temporarily thinned by the emigration of their inhabitants is compensated in the country to which they migrate by a reduced rate of growth of the population already established in that country, in which case no alteration is effected in the total of world population, while a presumption may lie that the substitution of newcomers unassimilated to the physical and cultural environment of the country they enter is detrimental to the population as a whole. Others argue that such immigration, far from releasing any pressure of population or subsistence, tends to aggravate the pressure, increasing the rate of growth of population in the new country without furnishing any lasting relief in the old.

Mr. Fairchild himself draws an interesting distinction between the effect of a regular sustained emigration of moderate size and a sudden and extensive migration. "If the emigration is moderate, this chance is seized by the reproductive power rather than by the standard of living. The rate of increase of population rises until the drain of emigration is offset, while the standard of living remains unaltered, and the total population continues the same. The very fact of emigration gives a sense of hopefulness to the people, and the knowledge that there is an ever-ready outlet for redundant inhabitants causes the population of the country to multiply more rapidly than it otherwise would". "On the other hand — the opposite result may be achieved when

[1] *Immigration,* p. 416.

there is such a sudden and extensive removal of people from a country, that those who remain feel a definite and profound lightening of pressure. This must be sufficiently immediate and widespread to produce a sudden and significant rise in wages or fall in prices. In such a case it may occur that, before the forces of population have had time to fill the breach, the people may have become accustomed to a somewhat higher standard of living, which thereafter they may be able and inclined to maintain." [1]

Upon this argument I venture two comments. Most modern migration is inspired by definitely economic reasons. The prospect of an early considerable improvement of earnings and standard of living is required to evoke the enterprise. That 'prospect' may to some extent be 'faked' by interested emigration agents, but on the whole it is justified by experience. Now if, as Mr. Fairchild holds, a sudden and significant rise of wages restrains the reproductive powers, that will operate more potently among the immigrants in a new country than among the temporarily thinned population of the country which they have quitted. For custom will weigh heavier among the latter. Though, therefore, the birth-rate of the new immigrants from Europe into America will be at first considerably higher than that of the older stocks of that country, it will, stimulated by the example of these older stocks and by the desire to maintain the higher standards general in the new country, come within a single generation to a sensible reduction of its birth-rate, especially as a larger proportion of new immigrants pass into the position of city-workers. Thus, even assuming that the places vacated are speedily occupied by a rising growth of population, there need issue no general rise in the growth of world population, since a larger proportion of that aggregate is brought under the operative influence of birth-control.

But my other comment takes the shape of questioning the

[1] *Op. cit.*, p. 418.

validity of the assumption that the vacant places are quickly filled up by an increased reproduction in the population that remains behind. Concretely the suggestion implies that the young men and women left behind will be enabled and induced to marry earlier and so have larger families, with a higher survival rate for children, in consequence of the economic vacancies which the emigration has created. The death-rate for all ages of the population may also be reduced by reason of the easier circumstances in which they live. Now, though these tendencies must be operative in some degree, the available evidence does not warrant us in holding that they operate as quickly or as fully as is represented. If the direct effect of a moderate continuous emigration is to raise the wages, and otherwise to improve the economic situation for those who stay at home, it is reasonable to suppose that part, at least, of that improvement will be retained in a higher standard of life, and will not be squandered entirely in earlier marriages and more prolific families. Moreover, the statistics adduced to support the theory of an automatic filling up usually ignore an important factor, viz., the tendency of populations of congested areas outside the actual area of emigration to find relief for their high population by flowing in to the areas reduced by emigration.

I cannot, therefore, accept as valid the theory that a process of emigration by which the world population tends to be distributed more evenly over the various countries in proportion to their productive resources, necessarily leads to a larger aggregate population. The rising standard of living and of intelligence, which are first results of settlement in a new and sparsely peopled country, accompanied in most modern instances by a rapid initiation into the methods of limitation of families adopted by the older inhabitants of these countries, must be regarded as an adequate compensation for any stimulation to the birth-rate and survival-rate in the countries from which the emigration has taken place.

# CHAPTER VII

## THE STATE AND INDUSTRY

§ 1. Our enquiry into the processes of production and consumption which constitute the economic system, regarded from the standpoint of the humanly desirable, leads us inevitably to the conclusion that the loose sort of fragmentary and low-conscious government of short-range and ill-adjusted self-interests that rules to-day is inadequate to safeguard and promote the economic and human welfare of mankind. While many of the business units in modern industry, commerce, and finance, are well-equipped and well-organised for productivity and profit, many others are so ill-contrived and ill-administered as to waste a large part of their productive power to the detriment of capital, labour, and the consuming public. Even in the trades where the separate businesses are well-administered, the trades, as economic organs, are for the most part feebly organised for the furtherance of any of their common economic interests. Where there is efficient trade organisation of coöperation for regulation of production and of markets within a trade, the governing motive and effect is sometimes not a better and fuller utilisation of productive resources, but a restriction of output and a control of prices which inflict injuries upon other trades as well as on the ultimate consumer. From the purely economic standpoint of prices, wages, profits, huge wastes manifestly arise from lack of effectively planned coöperation between trades that are vitally dependent on one another for their efficient functioning. As one ascends from the consideration of the economic cell to that of the economic organ-

ism, or system as a whole, conscious direction becomes feebler and looser. The power-house of finance, which comes nearest to a general instrument of economic government, can only effectively control the recent and more mobile forms of economic energy, its influence is confined to certain types of modern business enterprise, and the utility of its operations is heavily impaired by corrupt manipulation and other anti-social modes of profiteering.

The more one realises the intricacy and complexity of the economic system the more one is convinced of the need for a more conscious rational government, merely as a means to the better conservation and fuller exploitation of the economic resources of the world. But government for productivity and government for human welfare, though related, are by no means identical concepts. Such economic government as exists to-day is not, as we see, even government for productivity, except so far as productivity conduces to profits, which is by no means always the case. But even were the economic system so closely correlated in its business and trade units as to conduce to the maximum productivity which technical knowledge and organisation rendered possible, such correlation and effective singleness of purpose would not yield the result which we here desiderate, a system whose productive and consumptive processes in their character and their distribution, make the largest direct and indirect contribution to human welfare.

§ 2. Two things then are necessary. First, a more intelligently ordered system of industry as a complex coöperative whole: secondly, an adjustment of this system to the demands of the humanly desirable, as embodied in accepted principles and policies of human welfare.

In order to give concreteness to this general demand I may here briefly recite the prime essentials of a human economy as they have emerged from our enquiry.

(1) The employment of human and natural resources in pro-

cesses of economic production so as to minimise the human damages in economic costs, and to maximise the human gains in economic products, bearing in mind the interactions between economic and other human interests and activities, as affected by economic processes.

(2) Such government of industry, particularly in the business unit, as shall impress on all engaged therein a sense of fair play in the apportionment of work and the distribution of its product.

(3) Conditions of work and of employment best calculated to evoke personal interest in the work and some sense of the social service that it renders.

Among those concerned for human welfare, as expressed in the right relations between personality and community, these economic essentials will, I think, command general assent. As we have seen, liberal-minded and keen-sighted business men have been coming more and more to realise that business cannot any longer be run effectively by autocratic capitalism in the sole interest of profiteers or dividend receivers. The old hard legal conception of a business as 'belonging to' those who furnish the capital has been insensibly undermined by the broader view, that it belongs also to the workers who utilise the plant and other capital by their labour, and to the customers who have become dependent on the product for their consumption. If in ordinary business the demands of labour for a larger share in the product and some voice in the control have tended to exclude the wider functional view, this has been due to the survival of the notion that competition among businesses will adequately safeguard the interests of the consumer. But when, as we perceive to be the case, competition is displaced or qualified by combination in many vital industries, the increased interests of consumers demand protection against restricted output and raised prices. So far as these curbs upon competitive autocracy have been imposed by labour or by the State, they have not secured that full moral acceptance essential to their best operation. But the machinery for the pacific settlement of issues between capital and labour,

covering wider areas of industry, and the legal regulations over conditions of production and employment, extending in recent cases to wages and prices, have been an important education of the public mind towards the functional view of industry. While most of the movements and policies contributing to this change have been opportunist and directed to the safeguarding of special interests or the redress of special grievances, there has been emerging from them a new, though as yet feeble, conception of the need for larger and more consistent policies embodying the conception of businesses and industries as social functions. This signifies, we recognise, a new attitude towards the control of business and the disposal of its product. We have already given some attention to this new attitude in its bearing upon the incentives of the human factors of production and the movements towards an economic reconstruction in which these incentives shall find full satisfaction. But in any attempt to envisage modern industry as a social function, some wider general survey of the problem of industrial government is needed.

The new thought and feeling have most naturally found their chief expression in the separate local and trade cells of the economic organism, forming new contacts and avenues of corporate or coöperative action. But if we are to win a wider interpretation of the movement as an effort to secure a general control over the economic system in the supreme interest of human welfare, we must confront the need for expressing this supreme interest in some form of authority, some effective system of government. Here I would pause in order to disclaim the intention of endeavouring in a brief chapter to do any more than merely indicate the broad condition of structure and function to which such a government must conform.

§ 3. It will be best to begin by considering how far the political organisation termed the State is, or can become, the effective instrument of such government. For the purpose

of this argument the term State may be taken to include all machinery of political control from the ward or muncipality to the League of Nations or such other international organs as may be endowed with political authority. To many it will seem obvious that a general control of the economic system in the interests of the community can only be exercised by the State. For in the first place, they will ask, what is the possible alternative? In the Middle Ages in Europe the Church claimed to fulfil, and in some measure did fulfil, the function of a moral government of industry. But no remnant of such government survives, nor is such a restoration possible. Either the required government must be vested in the economic system itself by infusing into it a liberal human spirit and purpose, which it does not yet possess in any adequate measure, and endowing it with the requisite authority and power, or else the State, the only existing organ whose competence and power for conserving and advancing the interests of the community are formally unlimited, must be entrusted with this function of economic government.

Both methods have their proponents and both can appeal to certain forces and tendencies of the age in their support. The idea of an autonomous economic system, conducting business operations with efficiency and due regard to the welfare of all parties concerned, and distributing the product fairly, is not a novel one. It has inspired not a few utopians, and during the last century took a democratic shape in the aspirations of Robert Owen and his followers towards a co-operative commonwealth, an aristocratic shape in the economic chivalry expounded with so much eloquence and passion by John Ruskin. Distrust of politicians and bureaucrats on the one hand, the cult of voluntary social service by rotary clubs and economic liberalism among the business and professional classes on the other hand, have conspired to give a fresh impetus to proposals for an economic government

working for public service, but substantially independent of the State, and even taking over many of the economic functions at present exercised by civilised States.

The argument runs as follows. The existing State, dynastic or democratic, is discredited and obsolescent, its nationalistic activities are essentially separatist and destructive: hampered by outward traditions, it is inadaptable to the quick requirements of our changing times: when it lays its clumsy hands upon our business processes, it paralyses progress: its feigned expertism is an academic sham. The scientists, financiers, and large-minded statesmen who know what is wanted, what can be done and how to do it, should take control, establishing a working government of the business world that should be virtually independent of the political state, presumably winning the consent of the latter and constructing some stable *modus vivendi* between a growing economic and a shrinking political government. The attempts of the modern State to cope with the social transformations brought about by modern business have pitilessly exposed its incompetence, and, like other incompetent institutions, it must yield place to a new and better-ordered power. Such is the interesting thesis expounded with ample historic circumstances by Mr. William Kay Wallace.[1] Mr. H. G. Wells has given his own characteristic treatment of the same theme. The new control that is to emanate from the '*Open Conspiracy*' by which groups of trained alert and constructive men and women will set themselves, by persuasion, permeation, and where necessary organised force, to establish peace, regulate population, dissolve the national State, organise and distribute equitably the material resources of the world, though not exclusively economic in its activities, will mainly be occupied with economic government. For most of the functions of the "responsible world directo-

[1] *The Passing of Politics* and *Thirty Years of Modern History*. The Macmillan Co.

rate", ultimately established, will depend for their efficient performance upon the successful administration of the economic system.

"The amalgamations and combinations, the substitution of large-scale business for multitudes of small-scale businesses, which are going on now, go on with all the cruelty and disregard of a natural process. If man is to profit and survive, these unconscious blunderings — which now stagger towards but which may never attain world organisation — must be watched, controlled, mastered, and directed. As uncertainty diminishes, the quality of adventure and the amount of waste diminish also, and large speculative profits are no longer possible or justifiable. The transition from speculative adventure to organised foresight in the common interest, in the whole world of economic life, is the substantial task of the Open Conspiracy." [1]

What appears to be common ground between 'The Open Conspiracy' and Mr. Wallace's realistic interpretation of the actual displacement of politics by the controls of big business is the self-assertion of conscious expert minorities, and the scrapping of national barriers.

"Under the institutions of the future," writes Mr. Wallace, "the individual will not be called upon to express, through his vote, his views on problems of administration or policy, as to-day he is not called upon to express his views regarding technical problems in industry. These will be left to the expert in the one case as in the other. In the new institutions the private interests of the individual will coincide with his public function. This function is to contribute to the productive efficiency of the community, which in turn will afford him an immediate reward for his labours. This does not mean the nationalisation of industry, or State control in any accepted sense of the term. .In fact the Nation State will be displaced from its position of primacy in the social order

[1] *The Open Conspiracy*, p. 122.

and become an administrative mechanism for the maintenance of public security." [1]

How far the recent Communist experiment in Russia is to be regarded as a case of the supersession of political by economic government we need not discuss at any length. That it has been the active work of a 'conscious minority', assuming the right to act for the inert mass of the 'proletariat', and that it has been mainly devoted to tasks of economic organisation, is indisputable. But the conscious minority who seized control, though inspired by theories and projects mainly economic, were essentially political revolutionists, not economic experts, and their rule has been a slow groping after the requisite economic efficiency to enable them to maintain their political control. The Communist party wields full powers of the political state. It has not sought to displace this State by a distinctly economic organisation.

§ 4. The projects for independent economic governments under the titles of Syndicalism, Guild Socialism, or Coöperation, need not detain us long. They are all extensions of the idea of democratic government from the sphere of politics into that of economics. Not experts or conscious minorities are to rule, but the common sense and identity of wants and interests among the masses of organised workers, or consumers. Somehow, the present capitalist control of business is to be removed, either by sabotage or other violence, or by legalised confiscation or taxation, or by the gradual acquisition of necessary capital by workers' savings or borrowings. Then the workers, either in their several businesses or trades, or as consumer-shareholders, will be in control of the actual administration of the economic processes, running them, it is supposed, so as to secure the welfare of the working-class community. So long as these schemes are regarded in the vague, or realised only in particular group experi-

[1] *Thirty Years of Modern History*, p. 276.

ments, their difficulties and internal contradictions are not realised. The fundamental fact, that the identity of interests among 'the workers' breaks up on inspection into a great variety of conflicting group interests, only appears when Syndicalism or Guild Socialism is seen in its completed form. Why should the interests of the members of a Building Guild, in the pay they receive, through the prices they charge, coincide with the interests of the other workers who buy or rent their houses? So with the relations between all other groups of syndicated workers. Attempts are made to introduce standards of values for correlating the economic interests and measuring the social values of the contributions from the different groups. It is suggested that these very needs will evoke what will soon become an authoritative representative government, a complete industrial democracy. But a functional representation of the several economic interests, even though balanced by representation of the generalised consumer, could not constitute a complete economic government. For in such a body there would be no sufficient homogeneity of mind: its deliberations and its policy would be informed by no common interest and purpose. The interests of the organised workers in their several vocations would conflict with the interests of the same persons as consumers, and whenever one vocation or industry depends upon another for some commodity or service, similar difficulties would arise. While, therefore, a representative parliament of industry would be an exceedingly serviceable instrument for discussion of vocational claims and policies in the light of the broader economic interests of the community, and might evolve a pacific machinery for the adjustment of many conflicts, it could not dispense with the final authority of the political State.

"If it is the vocational will," say Mr. and Mrs. Webb, "not the civil will, that ought to be represented when vocational issues are involved, it is equally the will of the citizens

as such, not that of carpenters or engineers as such, that needs to be represented when the questions at stake touch their feelings and emotions as citizens, and not as carpenters or engineers."

I would not, however, go so far as Mr. and Mrs. Webb in regarding vocational representation as "a positive impediment to any ascertainment or presentation of the General Will of the community and to any ensuring of its execution," [1] provided that the vocation of the consumer is duly represented, and that a final voice in all important issues is reserved for 'the civil will'.[2]

§ 5. But however efficient and complete a scheme of economic self-government on oligarchic or democratic lines might be devised, it could not be operated independently of the political State, or without submission to the ultimate authority of the State, as representing the guardian of the general welfare. For the ethical conception of the modern

[1] *A Constitution for the Socialist Commonwealth of Great Britain*, p. 314.

[2] The notion, however, that the interests of consumers alone ultimately count and that under consumers' control the community is necessarily safer, will not bear investigation, though, curiously enough, it is a conclusion reached by Mr. G. B. Shaw after four hundred and five pages of argument. Socialism, as he sees it, "insists that industries shall be owned by the whole community, and regulated in the interests of the consumer (or customer) who must be able to buy at cost price without paying a profit to anybody. A shop, for instance, must not belong to the shop assistants, nor be exploited by them for their profit: it must be run for the benefit of the customers, the shop-assistant's safeguard against finding herself sacrificed to the customer being that she is herself a customer at the other shops, and the customer herself a worker in other establishments." *The Intelligent Woman's Guide to Socialism and Capitalism*, p. 446.

Unless the worker's interests or 'human costs' are directly represented and assessed in terms of welfare, the safeguard named by Mr. Shaw will afford no adequate protection to the workers in any particular shop or other business. The consumer in a particular shop will tend to sweat the employees, undeterred by the, to her irrelevant, consideration that she is "herself an employee in another sort of business".

State does not confine its functions to some narrow conception of the protection of life and property, but regards it as the collective instrument for promoting in every way the fuller, richer life of its individual members and their common economic and cultural heritage.

It, therefore, claims a general suzerainty over the economic system, upon the ground which we have already explored, that all economic processes are organically interwoven with other human processes and affect human welfare in countless ways that lie outside the economic purview.

On the other hand, definitely political activities are found to affect economic processes, sometimes by direct and purposive interference, sometimes by the indirect assistance or obstacles they present. The case for regarding the State as a distinctive factor in the production of wealth, and as a rightful claimant to its share of the product in the shape of public revenue, is irrefutable. The notion of the State as a parasite upon the economic system, 'confiscating' by process of taxation property entirely created by individual skill and labour, has already been exposed for the noxious fallacy it is. But the position we claim for the State as the chief general organ for collective human welfare requires a clearer statement of the relations of the State to economic life.

The State can contribute to the security and improvement of human life by various definite economic policies.

The first line of policy is strictly protective. By restrictive regulations upon terms of labour contract, and other physical or moral conditions of employment, the State protects weak, ignorant, or careless workers, against risks incurred in productive processes. By compelling insurance, it safeguards workers against actual damages to person or to livelihood due to industrial causes.

Other protective or preventive interferences with industry are directed to protect the consumer against poisonous or

other bad qualities in goods, false measures, and other misrepresentations, or the general public against pollution of the common air or water, or other public nuisances that may arise from industrial operations.

Finally, State aid is needed to protect the investing public against fraudulent or negligent abuses of the public companies' acts, by securing full, reliable, and intelligible information in prospectuses and balance sheets, and in safeguarding the shareholders against reckless or dishonest financial manipulation by directors over whom they have no adequate control.[1]

A second line of policy is directed towards a more equal and equitable apportionment of the product of industry. Though modern States are slow to assume this economic function formally, they are moving piecemeal towards a recognition of the need to enforce minimum conditions of livelihood through public regulation of wages and prices. After guaranteeing real wage rates in public employment, they are proceeding to enforce minimum wage rates on semi-public and other organised industries. Pensions and insurance policies work in the same direction. The imposition of legal limitations of profits upon national or municipal monopolies or other quasi-public business concerns, and the price-fixing rules attached to charters of incorporation, are movements in the same direction. Though the graduations and discriminations in modern taxing systems are guided primarily by facilities in raising revenue, their incidental effect in promoting a more equal distribution of the general income is not inconsiderable.

A third line of State policy lies in what is called development. Under that may be included not only undertakings

[1] I do not, however, endorse Professor Laski's proposal to give shareholders equal voting power at the general meeting of a company, irrespective of the number of shares they own. It would probably lead to creation of dummy shareholders by the directors or any strongly interested group of shareholders.

for the discovery, preservation, improvement of the economic raw resources of a country, such as road-making, drainage, afforestation, harbours, etc., but the whole of the work of public health, education, and scientific research, so far as it is contributive towards economic productivity. Here is a directly creative attitude of the State towards the economic system, though such of the work as is directed to health, education, and other personal factors may not be primarily economic in its purpose.

Closely related to this economic policy is the general policy of constructive public expenditure by which the State diverts what we have here defined as the economic surplus from private hands, in order to utilise it for raising the standard of communal life. Here we are concerned, not with specifically economic development, but with works of immediate cultural and human welfare carried out by public bodies using public funds.

These four related policies testify to an increasingly conscious realisation by the modern statesman that a chief function of the modern State is to effectuate the principle of the social determination of economic values, by making itself the final arbiter in discriminating between the private incomes needed to evoke and stimulate the productive activities of mind and body in the various classes of workers, and the surplus wealth which, emerging in excess of these requirements, forms a social fund to be administered either directly by the State, as formal representatives of society, or by such other competent social institutions as the State may authorise and endow for this purpose.

§ 6. But we are still confronted with the difficulties raised by realistic criticism of the competence of the State for the performance of these growing complex functions. Considering the State as the ultimate executive authority in imposing good human conditions upon the operation of the economic system, the most critical of all our ethical problems will be

how to secure a State that shall be wise and good enough for such a task. In the operation of the four general policies above cited there are several distinguishable attitudes which the State might adopt.

The first is public ownership and administration, i.e., state or municipal socialism, in the simpler sense of that term. Three considerations determine what industrial or other services fall into this category: first, the degree of 'monopoly' attaching to the industry, secondly, the general importance of the services it renders to the consuming public, thirdly, the measure of regularity and routine attaching to its processes and its administration.

Where these three conditions co-exist, as in roads and ordinary transport services, including the carriage of letters and parcels, telegraphic, telephonic, and wireless communications, generation and distribution of power in bulk, and many of the ordinary municipal services, the trend towards public ownership and administration is dominant.

Where the degree and character of the monopoly compel public ownership, it is often recognised that the delicate and expert management of an industry which, though the goods or services it supplies are common utilities, is in itself a mobile and progressive institution, is better entrusted to private business administration under public control as to prices, profits, and conditions of labour. So we can have a half-way house to socialism in the shape of public ownership with private administration. The important industries of railroads, banking, coal mining, and electric supply in Britain, America, and other advanced industrial nations, are held to lie along this line of country. Affected with strong public interest by reason of their limitations of supply and the common need for their product, they are recognised as 'public concerns' whose administration must be under some stringency of public control.

Whether the economies of skilled administration *plus*

efficiency of public control can better be obtained from a publicly appointed business body, such as the Metropolitan Water Board in London and the Thames Conservancy Board, removed from all directly political influence, or from a private capitalist company, such as the Metropolitan Gas Company, is not perhaps an issue of the first importance. For the question whether the capital of the business is publicly owned, or privately owned with restricted profits, is of minor significance as compared with the question of the reality and efficiency of the public control. Adequate discussion of this vital issue of control is here impossible, for it would involve us in a thicket of economic technicalities. But the general moral conditions of the problem of control urgently need to be faced. For there is a danger lest it should be utilised by defenders of private profiteering enterprise, in order to evade effective public interference. The assumption that the State may be able effectively to safeguard all genuinely public interests, in a trade of which it could not successfully take over the administration, cannot lightly be conceded. Experience of legislative controls by the Interstate Commerce Board, the Sherman Act, and other attempts to control big monopolistic enterprises in America, where the issue has been most severely tested, does not warrant us in holding that public control is likely to be a better safeguard of the public interests than public administration, in industries of vital importance to the community. Big business in such instances generally exhibits a disconcerting power to control the public control.[1]

It is generally conceded that, though the State must enlarge the area of its public economic enterprise, and the extent and rigor of its 'controls' over the big organised industries which

[1] Alike in its preference for Boards independent of direct political interference, and for public controls in general, instead of public administration, the Liberal Industrial Enquiry, desirous to escape the taint of socialism, gravely underestimates the difficulties of an effective public control.

supply the prime needs of the consuming public, most of the less organised industries, many organised luxury trades, and all new trades in the growing and experimental stages, form a sphere of uncontrolled, though not wholly unrestricted, private business enterprise. State intervention in such trades will be confined to securing safety and hygiene in the workshop, decent conditions for the employees, protection for the consumer and the investor, and the due exercise of the taxing power to secure for the public a share in any surplus profits of such private enterprises.

§ 7. How much wisdom, good will, and efficiency can be got into the State for the successful performance of these manifold duties? It is useless to urge that a State is inherently incapable of performing such duties, and that any attempt to put them on it is to court economic and moral disaster. This is a counsel of moral cowardice and despair. Our analysis of the waste, injustice, and inhumanity of the present economic system imposes a responsibility of collective conduct in which the State must take a prominent part. The things the State is doing which it must do better, the things it must do which it is not yet doing, are quite definite obligations, and to shirk them is a policy of anarchy. How to get the required intellectual and moral energy into the elected and official persons who comprise the State as a human agency is, therefore, the problem that directly presses for solution. For the main charges against the competence of the State are that, as an administrative instrument for economic government, it is inert, mechanical, aloof, as an instrument of policy that it is normally partizan and sometimes corrupt.

This aloofness of officials and partizanship of politicians are symptoms of the same political disease, a failure of the general will to function freely, strongly, and intelligently. That failure may be imputed, partly, to the lack of suitable channels through which the 'common sense' of the people

and the expert knowledge and judgment vested in groups of business men and citizens can function, so as to affect and influence the economic policy of the State; partly, to a moral and intellectual indifference among all classes of ordinary citizens, due mainly to a sense of the aloofness of the State, which checks and paralyses any impulse towards active participation in movements for democratic control. To some extent the trouble is due to the fact that a political State, not primarily designed for important and delicate acts of economic government, has been drawn too rapidly into work for which it is ill-fitted. But this defect only means that the State needs to be strengthened on its economic side, so that its aloofness is broken down and it is kept in vital contact with the needs and demands of a continually changing economic situation. In actual industry to-day combination is everywhere displacing free competition, for, when competition survives, it is in most instances organised and limited. Everywhere in the business and trade-units elements of representative government are asserting themselves, and coöperative organs for settlement of differences and for the furtherance of common interests are coming into being. A network of special and general trade congresses and conferences, local, national, international, brings into regular contact the active representative minds of the various departments of the economic world, employers, managers, technicians, workers, financiers.[1] These trade associations, supplemented by groups of independent economic students, produce great stores of economic information needed for the purposes of economic government. It is evident that some more formal relations should be set up between these associations and the State. The latter evidently might extend

[1] The endorsement by the Trades Union Congress in Great Britain (1928) of the negotiations between powerful groups of Employers and Trade Unionists in the principal industries for the formation of a consultative National Industrial Council, is a notable advance in a constructive policy.

itself by the regular utilisation of such associations for advisory and even for administrative purposes, delegating to them the requisite statutory powers. The beginnings of such a process are, of course, already discernible in our Trade Board Acts and in other recent instances. Every wise extension of this policy signifies a larger participation of informed public opinion in the State and *pro tanto* mitigates the stiffness and aloofness of government. The growth of such facilities for influencing and participating in the State not merely renders the State technically more competent for economic government, but nourishes in the intellectually and morally alert portions of the public a sense of real membership in the State that spreads new confidence in its wisdom and integrity. This increased participation of alert minds among the different classes of the community in the actual decisions and operations of the State is the first essential for the efficient performance of the new tasks of economic government to which every modern State is committed.

# CHAPTER VIII

## ETHICS OF ECONOMIC INTERNATIONALISM

§ 1. *Porro Unum necessarium est.* However well-informed and reformed the national State might be, it could not fulfil efficiently the task of the economic government of its people, for the simple reason that the economic system is not a national system in its area and structure. The chief desiderata of economic welfare, productivity, and economic justice, are impracticable without international government. Mr. Wells would say world-government, positing the unity of a world-state. But holding that large sections of governmental work in industry must continue to be exercised within national limits, I should content myself with an insistence that the international government which is slowly struggling into being shall be invested with sufficient federal power to over-ride the selfish policies of surviving national interests and animosities operative in the economic field. For none of the graver problems of human welfare which we have encountered is capable of sound solution upon a purely national scale. Peace, security, disarmament, arbitration, the prime objects to which the machinery of our new internationalism at Geneva and elsewhere is directed, are quite unattainable unless accompanied by a virtual abandonment of exclusive national economic policies. The Powers at Geneva, or outside, in their fumbling after a world-peace policy are as yet unwilling to face this crucial issue. This statement can be tested easily. Every nation, when invited to outlaw war, reserves the case of wars in self-defence. But when self-defence is narrowed down to cover only the resistance to in-

vasions of their national territory, it is soon discovered that this reservation is not enough. Self-defense must cover the defence of other vital interests, some of which lie outside our territorial boundaries. Now most of these vital interests, when boiled down and separated from their political skins, are the economic interests possessed by our nation, or the financial and commercial groups who operate our national policy, in having favourable access to the markets and the material resources of other countries.

So far as the civilised nations are concerned, these interests are real and genuinely vital in the sense that civilised life is dependent upon adequate and reliable access to these external markets and resources. Civilised life cannot go on without a number of raw materials, some or many of which lie outside the confines of our national territory. "Without coal, oil, iron, cotton, silk, nitrates, indigo, potash, plant derivatives, and the innumerable other materials that enter into its intricate processes, modern industry could not exist." [1] In Western countries populations have come into being and standards of living have been established on the basis of access to these outside supplies. Now these raw materials, which 'our' people vitally need, will usually lie in countries of low development and low civilisation. For so far as they are contained in countries upon our level of development, they will normally be required to furnish the personal or industrial requirements of the peoples of these countries, who will prefer to sell finished products to us instead of the materials which we may wish to buy. The great problem of economic internationalism is, therefore, that of the relations between the industrialised and the non-industrialised countries. It is a common interest of all industrialised nations that certain important resources of 'backward' countries shall be developed and made accessible to them upon reasonable

[1] *The White Man's Dilemma,* by Nathaniel Pfeffer, p. 84. Mr. Pfeffer presents in this book the most convincing analysis of the issues raised by modern imperialism to be found anywhere.

terms. Have the peoples of these backward countries any 'natural', 'reasonable', or 'moral' right to withhold these resources, and to refuse, either to develop them themselves, or to allow others to supply the capital and labour which they cannot or will not supply? Two answers are possible. One is that of the absolute nationalist, who insists upon the unrestricted property of the occupants of a country in its natural resources, including the right of use or non-use, according to their own will. The other is that the needs and interests of humanity at large, the people of the world, must over-ride the purely national will, where the latter is obstructive to the former. Justice and reason, however, make the proviso that when the obstructive national will is over-ruled, it shall be by an outside power which can reasonably be taken as representative of the interests of humanity, not of the interests of some section of a particular outside nation. Modern imperialism has been a consistent defiance of this sound proviso. The particular national policies of developed Western countries, shaped by financial and commercial groups, have been directed to force trade relations and development of natural resources upon backward countries, and to establish political controls over them which shall attach these sources of wealth to their own national economic system. The allied purposes of securing on exclusive or preferential terms access to the raw materials of backward countries, markets for the manufactured exports of the developed country, and lucrative fields for the investment of the surplus capital of the advanced country in developing the backward country, constitute quite manifestly the tap-root of modern imperialism. The struggles between advanced nations for these economic advantages have been the chief underlying causes of almost all modern wars, including the Great War. No real or permanent world-peace is possible until the economic relations between advanced and backward countries are put upon an equitable footing. For, so long as each advanced nation

regards the exploitation of the raw resources and the markets of some backward countries as a special 'vital interest' of its own, and uses its economic, diplomatic, and fighting forces to 'defend' that 'vital interest', there can be no security either for the peace or the economic prosperity of the world. Peace is impossible, because two 'legitimate' sources of war remain open. Wars arise between two or more advanced Powers whose separate economic policies are directed to the exploitation of the same backward country, a conflict which intensifies as the number of these unappropriated areas diminishes. Wars, commonly euphemised as 'police measures', 'punitive expeditions', or 'frontier incidents', will continue to take place for the enforcement of these economic interests of an imperialist power over peoples which it has taken or is taking under its political ægis, as colonial possessions, protectorates, 'spheres of interest', or 'spheres of legitimate aspiration'.

§ 2. Until some government has been evolved which is genuinely super-national, in the sense that it has authority to decide, and power to enforce its decisions, in issues affecting the utilisation of such world resources as it may deem to lie outside the reasonable limits of the several state authorities, there will be no abolition of war and no sound economy of world resources. The Mandates issued by the League of Nations for the government of certain ex-enemy possessions in the Peace Treaty, are a first dim formal expression of this need. The underlying principles of the Mandates are these, that the interests of the population of the mandated area are to be a first consideration, that the interests of other nations (at present confined to members of the League) are to be upon an equal or equitable basis, and that the rule of the mandatory power be subject to the supervision of a body representing the international authority. Imperfectly as these principles are realised in the present working of the mandatory system, they contain the germ of an international economic government which cannot in the long run be con-

fined to the exploitation of the resources of a few definitely backward countries, the political control of which happens to have changed hands in the fortunes of war. Already the anomalous and awkward situations produced in Africa, where mandated areas adjoin the colony or protectorate of some European power, are beginning to evoke a demand for extension of the mandatory policy to all such territories, partly in order better to safeguard the legitimate interests of the natives, but chiefly in order, by equalising economic opportunities for the Western industrial nations, to draw the fangs of competitive imperialism.[1]

§ 3. But serviceable as this mandatory principle is, and may become, in superimposing an international control upon the national controls in the relations between advanced and backward peoples, it will need much amplification before it can become an effective instrument for the constructive task of full economic internationalism. The world is not divided into highly industrialised white countries, on the one hand, and definitely backward countries with primitive populations on the other. There are great territories, mainly occupied and ruled by white men, that are thinly peopled and largely undeveloped, such as Australia and large tracts of South America. There are other large countries in Asia, inheritors of ancient civilisations, claiming full control of their political and economic government, upon which it would be hardly possible, even if desirable, to impose a white man's mandatory system. Now in the effective economic development of both these types of country, the world at large, humanity, is vitally interested. If China contains great unused resources of coal and minerals, which are world-needs, her national government has no moral right to withhold their development. If her people can and will develop them, with their own skill, labour, and capital, any reasonable interna-

[1] See H. N. Brailsford's *Olives of Endless Age* for a powerful presentation of this and other proposals of constructive internationalism.

tionalism leaves the task to them. But if they cannot, or will not, do the work themselves, they must allow outsiders to come in and do it. In a word, absolute property with its *jus utendi et abutendi* can no more be admitted in a case of the collective occupants of a country, called a nation, than in the case of individuals. The same principle must hold of a white population in political control of a country which by reason of their small numbers, or for climatic, or other reasons, they are unable to occupy and develop. Australia is the most conspicuous example. With a low birth-rate and a white population concentrating in cities, white immigration sharply restricted by distance and legal obstructions, vast areas of potential wealth in foods and minerals remain barren because of the refusal to give access to the teeming Asiatic populations able and willing to develop them. What right have the scant populations of this large continent to deny to mankind this source of work and wealth?

I am well aware that thus stated the issue is over-simplified. Alike in the case of China and of Australia, the nationalist position is defended on the ground that political, racial, and other considerations, may rightly outweigh the admitted economic interests of the outside world. And so they may. When a new country is politically 'in the making', restrictions upon the free admission of outsiders, who are racially or otherwise difficult of assimilation, are justified, for there is a reasonable presumption that the actual inhabitants of a country should decide what numbers and sorts of outsiders should be admitted. So likewise in an old country there is a reasonable presumption in favour of leaving its people and government to develop its resources in their own way, and at their own pace, rather than of forcing the admission of foreigners and foreign methods which may disintegrate the traditional life of the country and cause dangerous disorders.

But these presumptions in favour of the economic self-

determination of each country have no more absolute validity in the case of strong and advanced countries than in weak and backward ones. Nationalism has no equitable claim to block the development of the resources of any section of the world merely because her political government extends over this section. The presumption in favour of her economic judgment may and ought to be capable of being overridden and set aside by a government competent to interpret fairly the interests of humanity at large.

Here, of course, we come to close grips with the moral spirit of a nationalism which is simply collective selfishness on its largest and most injurious scale. To tell Australians, Chinese, Americans, Britons, that they have no equitable right, finally and absolutely, to determine what persons or what goods shall enter or leave their shores is to challenge their most sacred sentiment of patriotism. Yet, until this spirit of exclusive nationalism, with its refusal to acknowledge the larger and higher rights of humanity, is exorcised, it will not be possible to go far towards the effective abolition of war and the constructive work of a genuinely world economy.[1] For peace and a world economy require a far larger, more complex, and more reliable system of economic internationalism than is at present contemplated at Geneva.

§ 4. The essential obstructiveness of political barriers to the free flow of economic life has often been exposed by economists, who find in complete liberty of trade, travel, and investment, a natural harmony of interests which would secure the best development of the productive resources of the world and their best distribution among the inhabitants. Unfortunately this natural harmony has no more validity on the world scale than for smaller economic communities. National selfishness cannot be exorcised by its logic. A rigorous immigration policy, restrictions upon the entrance

[1] This is more manifest by certain reservations in the recent Kellogg Pact.

or export of capital, monopoly of colonial trade, an exclusive tariff, may, in a short or even a long run, be economically advantageous to the groups who can control the government of their country, or even to its existing population as a whole. For a policy which is to the present or ultimate advantage of the world may damage economically some particular area, reducing its commerce, diminishing its population, and otherwise impairing its importance. So long as the nation continues to be the effective limit of loyalty, there is no adequate foundation for the world economy. If most Britons, Americans, Frenchmen, prefer a small gain for their country to a much greater gain for the world at large, if they insist that their governments shall be actuated by the dominant desire to secure for them as large a share as possible of the limited resources of oil, rubber, iron, copper, and other important materials, if necessary by annexing (under whatever title they disguise the process) the best supplies, no verbal outlawry of war, no arbitration treaties, no disarmament conferences, will give security of peace. Socialists often insist that modern imperialism, the conflicts it engenders and the oppressions it exerts, are entirely the products of a capitalism within the several nations which utilise the political and fighting forces of the country for gains in which the people have no share. Substantially this statement is correct, but it ignores the sentimental and genuinely moral support accorded to the policy by the peoples.

§ 5. The issue thus turns out to be one of the limitation of the effective area of community, in its kernel a moral issue, though closely linked up with external conditions of human intercourse. If, as so able a thinker as the late Mr. Bernard Bosanquet maintained, the nation-state is and must remain "the widest organisation which has the common experience necessary to form a common life",[1] the extension of the area

[1] *Philosophical Theory of the State*, p. 320.

of community here desiderated is impossible, and the world economy cannot become a definitely purposive system. But surely the general trend of modern life, not merely on the economic, but on the cultural plane, is towards a widening of "common experience", beyond the limits of a nation. To a larger and larger number of persons the conception of mankind and the world as wholes comes to have a clearer meaning. A vast web of associations, business, scientific, hygienic, artistic, philanthropic, last, not least, athletic, is woven across the national barrier, bringing into personal and spiritual contact and coöperation an ever increasing number of the active persons in the several nations.

But while admitting the importance of such extensions of what Bosanquet terms "the common experience necessary to form a common life", as nutriment to a super-national mind, I would enter a protest against the assumption that our sense of the rights and obligations of humanity is formed entirely by such actual contacts. A sense of equity, of what is due to others, can have a strong purchase upon our will and our conduct, though we have no direct contact with these 'others', and do not even know who they are. A sense of equity will prevent us from discriminating unfairly in favour of those who come within the range of our "common experience", and against those who do not; it will make us recognise and 'allow for' the bias in favour of our friends when the claims of friendship should not count. Justice has its absolute appeals, to the intellectual and æsthetic, which forbid us to sacrifice the interests of an unknown many to a known few, however strong the appeal of personal sympathies may be. It is the enforcement of this claim for a clear dispassionate justice that is the first desideratum of moral education. Much more than this is wanted to give vigour to a normal life: but active social sympathies, without the guidance of this cool sense of equity, a calculation of what is due to each, are certain to run to moral waste, if not

to moral havoc. But for effective human coöperation, of course, more than this equitable principle is needed, and the fund of actual knowledge about foreigners furnished by this ordinary web of associations is of immense service. For, as it becomes more evident that the peace and prosperity of every nation depend upon policies that demand effective international coöperation, this knowledge must itself furnish a potent moral stimulus towards the cultivation of the wider human sympathy. Thus everywhere do facts and feelings play into each other's hands.

§ 6. It must, however, be understood that the moral struggle remains exceedingly acute. For it is not sufficient that the loyalty to one's nation shall be supplanted by the wider feeling for humanity. The question of conflicting loyalties arises. The hundred-per-cent patriot prefers the good, or the supposed good, of his country to that of the world. The humanist position demands that the wider loyalty must prevail. Where areas of allegiance are organised, as they must be, for effective coöperation, this signifies that a federal system must develop in which the final voice is vested in the federal government. Approaching this critical issue, as we do here, from the standpoint of economic life, it posits the authority of some international government competent to deliver 'the economic goods', i.e., to control the development of world-resources in the interest of humanity. So gigantic a proposition must not be permitted to appall our minds. It is not the slogan for a sudden revolution in the behaviour and the minds of men, but the plain affirmation of the distant goal to which many movements are converging from different parts at different paces.

The goal, or ideal, itself derives its validity from the same principle which is the ruling element in all forms of community, the essence of all economy, viz., distribution of work and wealth in accordance with ability to make and enjoy. If the world for economic purposes could be organised upon

this principle, its natural resources, assigned to the cultivation of the inhabitants of the various countries, according to their capacities, and supplemented where necessary by suitable drafts from other countries: a broadcasting of the pooled skill and technique and organising power available from all world-sources, a central distribution of capital, a common saving fund, available according to the industrial needs of different countries and industries, the world would then be raised to the level of its highest productivity. If, also, this greatest economic product were able to be distributed, or rationed, according to the diverse needs, or capacities of enjoyment of the members of this world community, such an economy of production and consumption would yield a maximum economic contribution to human welfare.

§ 7. There would still remain for settlement the important problem of ascertaining the right relations between economic and non-economic welfare, how much of the energy and interest of life should be devoted to distinctively economic activities. Upon this topic, however, I touch in the final chapter. It need not trench upon our consideration of the place of economic government in world-community to which we here address ourselves.

Though any such international economic government as we have just imaged may seem to imply impossible conditions, first, the enthronement of an enthusiasm of humanity, in the place of the narrower interests and loyalties of country, class, family, and self; secondly, the creation of federal administrative apparatus competent to deal efficiently and honestly with the enormous complexities of this world economy — though these two conditions may seem to remove our image from any claim to be an operative ideal, even for some remote, far off, and partial realisation, I venture to set out a few practical considerations in extenuation of so abrupt a dismissal.

Though statecraft is very slow to realise the definitely

economic character of the 'vital interests' which figure on the stage of diplomacy, and is still disposed to paralyse Peace Pacts by reserving from their purview just those issues which imperil peace, there *is* a large growing public in every country that is more or less alive to the lessons of the war and the post-war situation. This mind, so far as it is informed, runs on the following lines.

If the struggle of rival imperialisms and their economic policies continues, no serious hopes or expectations of lasting world-peace can be entertained, for all the seeds of strife remain in the world system. On the economic side, the 'national' struggles for raw resources such as oil, rubber, copper, the deficiency of foreign markets adequate to take the export surpluses which depressed trades in industrial countries could produce, the visible wastes of manufacturing power thus revealed, the raising of tariff walls and other aids to home industries at the expense of foreigners, the payment of war-debts by poorer nations to richer, the harassing fluctuations of foreign exchanges — all these factors feed international fears, suspicions, envies, and hatreds. The only escape from these moral and economic wastes and perils is by way of organised economic internationalism.

This can conceivably come about in one of two ways. Since political divisions have in themselves no economic significance, international coöperation may proceed by mutual agreement between groups of financiers and industrialists in different countries to extend their organizations across their national barriers, for profitable economies of production and marketing. The trust and cartel movement by which combination displaces or restricts competition has already shown a tendency to extend its area beyond the nation, coördinating the production of many units by a specialisation of processes accommodated to the geographical and other facilities of different countries, and by a rationing of the sources of supply of raw materials. Even before the

war such international combines existed in a number of industries, such as steel rails, Atlantic shipping, and incandescent lamps. Now there are many more, and bodies like the International Chamber of Commerce regard them as normal, necessary outcomes of the new economic situation. Apart from the economies of standardised production, they carry great economies of marketing and transport. If the controllers of big business by thus getting together could substitute harmonious and profitable coöperation for the wasteful economic conflicts which in the past have carried such grave political consequences, the interests both of peace and productivity might seem to be secured.

To many this appears to be the only practicable line of advance. Big business alone possesses the organising power and the political influence that are necessary. For this advance, though essentially economic, cannot dispense with political action. While for some purposes it may disregard tariff barriers, its general interests are definitely opposed to such interferences with free trade and the commercial division of labour that it serves. So, likewise, in dealing with sources of supply and markets in backward countries, this international capitalism will need the combined action of the imperialist states. As capitalism generated imperialism, this intercapitalism will generate an inter-imperialism.

The net effect of this entire process, carried far enough, would be to substitute a new cleavage for the old class cleavage between capital and labour in the several countries. Western industrial civilisation, organised internationally under industrial, commercial, transport, and financial cartels, would exploit the tropics, and other backward countries containing or receiving supplies of cheap submissive labour, for the benefit primarily of profit-making syndicates, but, secondarily, of the skilled white labour in the final manufacturing processes and other economic services still retained in the Western world. An economy of high wages, short

hours, and other good conditions for Western labour could conveniently be provided out of the surplus gains and economies which such an inter-imperialism might provide.

This would not be an ideal human economy. For it would contain no safeguards of the interests either of workers or consumers, except such as the fears, or the interests, or the voluntary good will of a capitalist oligarchy might provide. Prices and wages, in other words, would be fixed by the arbitrary will, or calculated gains, of groups of able business men, with no effective power of resistance from their employees or the consuming public. Though our analysis has disposed of the assumption that intelligent profiteers must in their own interest always pay good wages and fix 'reasonable' prices, we may admit that for such an economic oligarchy to work safely in our time, limits must be set upon the abuses of the wage and price systems which would be technically possible under such a system.

The human defects of such a system are evident. It is in effect an economic despotism. No real power of economic self-determination is vested in the vast majority of producers or consumers. The maldistribution of the product, through the successful operation of the profiteering motive, would necessarily place a limit on the economy of high productivity, which is the main recommendation of the system. As in single trusts, or combines to-day, it would continue to be profitable to restrict production. Apart from this, the human value represented by any increased productivity thus attained would be diminished by the lack of any adequate security for minimising the human costs of its production and maximising the human utilities of its consumption, a necessary implication of the profiteering system.

§ 8. The only economic internationalism which can command our moral assent runs upon different lines. It consists in an extension of the progressive principle of distribution of productive resources and products according to ability to

use them, and it demands that the participants in such an economy shall have some free expression of their 'selves' in its operation. It signifies a gradual persistent working towards an organised business policy which shall, for purposes of production and consumption, treat the principal economic resources, both natural and human, as unitary world supplies to be operated for the benefit of mankind as a whole, not for the exclusive or predominant benefit of the particular nation, or other groups, within whose area of occupation the economic resources in question happen to lie. In other words, the ideal 'natural harmony' or interests to which economic idealists of a century ago looked for the coöperation of the world, must become a conscious calculated policy of modern internationalism. The meagre experimental beginnings of such a policy may be traced in the economic surveys of world resources which emanate from the Economic Commissions at Geneva, from various private international organisations of bankers, traders, and industrialists, and from groups of economic students in universities and elsewhere, from the labours of the I. L. O. for the standardisation of conditions of labour in different countries, and, last not least, from the growing participation of governments and groups of bankers in projects for the regularisation and improvement of the monetary system of the world. The principle that the disposal of supplies of important foods and raw materials shall not be left to the arbitrary will of groups of exporters in the several countries, bargaining with importers in other countries, but shall be distributed, or rationed, according to some general estimate of the respective needs of importing nations, was adopted by the allied governments during the emergency of war-time, and the financial resources required for the administration of this policy were furnished from a general fund. This war-communism was justified as a moral and economic necessity,

and was in part retained during the period of economic stringency that followed the peace. Though few suggested that it was practicable to retain, extend, and regularise such an economic policy for employment after the emergency had passed, the moral lesson of a needs basis of distribution which it furnished will not have been altogether lost. Quite evidently it is a legitimate extension of the ethical and economic maxim of distribution which we recognise is gradually forcing its way to authoritative recognition within the systems of most civilised nations, displacing the crude selfishness of distribution according to 'pulls'.

At present the possibilities of an effective realisation of such a world-policy are slight and slow. Hard-shell nationalism, with its 'hands off our resources' and 'may we not do as we like with our own', holds dominion over the hearts and even the intelligence of most men in most countries, and the moral and intellectual forces of education through many channels are prostituted to the obsolete traditions of an obstructive sovereignty. The higher loyalty of world-welfare has a long struggle before it to win that measure of genuine acceptance needed to impose its claims effectively upon the institutions and policy of economic internationalism. Nations which are not yet seized of the obligation to give equality of economic opportunity to one another in their markets, are as yet quite incapable of the higher obligation to regard their natural resources and powers of production as a moral trust, to be administered, not for the exclusive advantage of their own members, but for the benefit of mankind, as estimated by some representative federal authority.

Yet wildly impracticable as such a suggestion may seem, I should regard it as a gross dereliction of a plain intellectual duty, were I to fail to register my conviction that nothing less than the establishment of such a super-national federa-

tion can in the long run satisfy the equities and economies of the world in which we live, and secure the moral and material welfare of humanity. However slowly and doubtfully, and with however many stoppages and retrogressions, mankind in, through, and above its national groupings, must gradually accomplish this moral mastery of its economic destiny.

# CHAPTER IX

## USES AND ABUSES OF MONEY

§ 1. In a treatise concerning the relations between economic and ethical or human values it may seem strange that all formal discussion of the place occupied by money should be deferred to the close of the enquiry. For money is not only the measure of all economic wealth, and the medium of all economic activities. It is the abstract form and distillation of all economic values. For this very reason I have kept it to the last. The human significance of the diverse activities constituting economic life, and of the goods it is concerned with producing and consuming, could only be estimated by the concrete method of approach here adopted. A direct confrontation of money value with human value would have been quite illusory, for all the humanity has already been extracted from economic goods and processes when they have passed into the money form.

None the less the influences of money upon the human economy of values are of profound significance for us. But in studying these influences we resolve once more the abstract value into the work it does upon the human mind and upon the economic system. Though these two influences overlap and interlace, it is best to approach them separately.

The psychology of the monetary appeal to man's mind is full of interest and is not so simple as it appears at first. The discovery of money as a single depository of value and medium of exchange is probably the most educative, morally and intellectually, of all human inventions with the possible exception of fire and the printing press. Civilisation con-

sists mainly in putting people and things together, physically and mentally, and money has been chief helper in this work. Human intercourse, as history shows it, could not have passed effectively beyond the limits of small local groups without money. The whole economy of division of labour and co-operation rests upon this basis. It gave a man a sense of security and confidence in distant and even personally unknown men, and a power over his own future which nothing else could give. Though credit is deemed a modern development of money, it is in reality the moral meaning of all money from the very start. For the confidence in other men's willingness and ability to give him the sort of goods he might want to consume, now or in the future, is the kernel of the monetary system. Money has by this strictly moral influence bound man to his fellow men and man's past to his future.

Money thus becomes at once the symbol and the instrument of economic power, the power to make other people work, in order that we may enjoy the fruits of their labour. It is true that we can normally acquire this power only by having ourselves worked for other people's enjoyment. But none the less the actual property in money functions psychologically as a sense of power over others. It is, as we said, both an instrument and a symbol. In both aspects it may become an object of worship, *auri sacra fames*. To the miser the symbol has actually swallowed up the reality for which it stands: the glitter and the tinkle of the coins exercise a mystical charm upon his ears and eyes. Some dim sense of the power they symbolise may still survive in his mind, but it is deeply embedded and sterilised for action. He cannot bring himself to part with the coin in order to exert its power and get the coin's worth. Whether this force of symbolism will survive the substitution of paper for coins, its rustle giving the same joy as their tinkle, may be matter for speculation. Probably not. For some literally hypnotic

influence may attach to the ogling of small bright round coins.

But if the miser's attitude towards money is irrational, what of his opposite, the spendthrift to whom money is nothing but the quick instrument to present unmeasured satisfaction? His irrationality is of a different order. It ignores what we may call the primary meaning of money as a store of value. For the essential character of a store is that of considered use over a period of time, and the spendthrift brings no consideration to the relative importance of his purchases, but 'blows it now'. These contrasted characters contain perhaps in themselves a significant commentary upon the defective working of the economic system by which money comes so hardly and so slowly to some, to others so lightly and so quickly. For the miser naturally belongs to the former type, the spendthrift to the latter.

§ 2. But it is more germane to our purpose to point out how the essential characters of irrationality which stand out so strongly in the miser and the spenthrift attach in less degree to the attitude and dealings of most of us regarding money. The young soon learn from the conversation of their elders that money is somehow different from and superior to other sorts of property, that selling is in some way more commendable than buying, and that the possession of much money gives a dignity and importance to the possessor quite apart from enabling him to buy anything he wants. In a world where business is so predominant an interest, and the struggle for a livelihood occupies so large a part of human thought and energy, the money concept naturally comes to occupy a special niche of honour in our mind. Safety, power, enjoyment, leisure, for ourselves and for those dearest to us, are packed into this concept. Though we may believe that we only value money for the utilities and satisfactions it can procure for us, the very variety and importance of these ends secretly endow the means with a value of its own. Nay, the

very physical character of money, its durability and compactness, impresses on us the permanence and stability of this value. So firm is this confidence, so revered the thing that inspires it, that even when experience shows our money shrinking in its buying power, our first inclination is to find the explanation and the blame on the commodity side of the equation not in the money. Indeed, this naïve confidence in money helps to salve many an economic sore. "Between 1896 and 1914 — the investor had already suffered a serious loss — the capital value of his annuity had fallen by about a third, and the purchasing power of his income had also fallen by nearly a third", writes Mr. J. M. Keynes of investment in British Consols.[1] The substantial nature of this loss, however, was little realised, partly because it was so gradual, but largely because the nominal monetary value of the investment remained unaltered. Even the swifter loss of the war-period has not been fully realised in consciousness. People feel much more acutely the money actually taken from them in income taxes, than the greater loss due to rising prices. This is certainly attributable in part to a superstitious, unreasoning regard for and belief in money. It is, however, by no means confined to the investing classes. Take the issue as between money and real wages. No worker pays due regard to the fluctuations in purchasing power of his money wages. If his weekly money wage remains unaltered he will accept with an almost stoical indifference the rising prices that reduce its commodity value. On the other hand, he will fight to the death any proposal to reduce his money wages, though prices may be falling so rapidly that he can purchase as much, or even more, with the reduced sum. Though such refusal may be partly sound tactics in his struggle for a larger share of the national dividend, it is manifestly due, in part, to concentration upon money rather than on money's worth.

[1] *A Tract on Monetary Reform*, p. 14.

§ 3. Public policy has notoriously been infected by a similar unreason. One need here only allude to the large element of superstition in the mercantilist theory and policy and its survival in the modern notion about a favourable balance of trade. For the individual business man, or firm, there is perhaps in normal times a greater urgency to sell than to buy, for the exchange of specific goods for money gives greater liberty in planning and more control over future operations. But for a nation, as an aggregate of business men, no such urgency exists, though one effect of presenting international trade in national balances, which suggests that America, Great Britain, France, and Germany are trading concerns, is to foster this illusion. Its absurdity presents two faces, counterparts. The first is that of a country so afraid that its citizens will be enriched by receiving quantities of foreign goods for which the countries from which they come refuse to take payment in the only form in which payment is possible, that it tries to stop them coming in by tariffs or by prohibitions. Though a protective system assumes quite other guises and purposes to most of its defenders, it is rooted ultimately in the illusion that if foreign goods are admitted freely, they cannot and will not be paid for in goods made in the recipient country and going out in export trade. For since few countries mine the precious metals and can thus make direct payment in money, there is no other means of paying for imports except by exports. To give any show of rationality to such a policy one would have to suppose, upon the one hand, a belief that foreigners will go on sending us goods gratuitously, upon the other, that this parasitic life of ours is not recognised as degrading to our national character, by forcing us to live upon charitable contributions from strangers.

The other face of this absurdity is shown by the United States, chief agent of this undesigned charity, so embarrassed by attempts of foreign nations to make honest pay-

ment for goods supplied, that she will neither take their goods nor keep their gold, but hands it back to them to use for their own purposes, retaining only paper liens upon ever growing quantities of foreign wealth which she can have no serious intention of ever claiming for her own.

§ 4. But money is not what it was. Indeed, one of the direst consequences of the Great War has been the blow struck everywhere at the moral confidence in money. The economic system everywhere is still reeling from that blow. The central meaning of money, as we have seen, is that of a store, giving us a safe command of future consumables. Saving, except to the meagrest extent, is impossible on any other terms. What the war did was to 'loot' this store and so destroy the confidence in saving for investment. All savings do not, of course, come in this category: but saving for a fixed interest plays so important a part in a sound economy that such an injury ranks as a moral disaster of the first order. Mr. Keynes thus describes the fate of whole bodies of these middle-class investors.

"Before the war these medium fortunes had already begun to suffer some loss (as compared with the summit of their prosperity in the middle 'nineties) from the rise of prices and also in the rate of interest. But the monetary events which have accompanied and followed the war have taken from them about one-half of their real value in England, seven-eighths in France, eleven-twelfths in Italy, and virtually the whole in Germany and in the succession states of Austria-Hungary and Russia." [1]

It may perhaps be urged that these losses of investors and creditors carried a corresponding gain to debtors, including the businesses thus relieved from the burden of interest on their debentures and fixed interest shares. In a measure this is true, and the rapid recovery of certain businesses in Germany and Austria is undoubtedly attributable, partly, to

[1] *Op. cit.*, p. 14.

this relief. But even with this allowance an immense damage was inflicted upon the economic system as a whole. Thus to endow the debtor classes of the community at the expense of the creditor classes strikes a double blow at economic equity and reason. For the former have no more right to gain than the latter have to lose. Both are demoralised by a reversal of their reasonable expectations, and are economically injured by receiving so much more or less than they 'ought' to receive. The miseries of the sober saving classes are in no sense compensated by the wasteful extravagances of war-profiteers. The saving habit is definitely weakened for the future. Fluctuating prices alike for goods and for securities have everywhere fed and stimulated greed and speculation, while the controllers of finance have strengthened their hold upon the industrial and commercial system for purposes of profitable manipulation of supplies and securities. The prime use of money, as a safeguard of value and a facile instrument of exchange, is that it enables and incites men to industry and economises their efforts by giving them an assurance that they will be able to dispose of their product on foreknown and fair terms. But fluctuations of prices that are quick, violent, and incalculable, force everyone to worry about economic processes that should be automatic and unconscious, and so disable them from the smooth performance of their work. Here is a new subjective cost involving an actual waste of economic productivity.

By such fluctuations, moreover, the distribution of wealth is made more irrational and more unjust, and the sense of this unreason and injustice is grit in the working of the industrial system.

The abolition of these psychological stresses and their accompanying economic injuries, and the reduction of money processes to a routine, for all except those called upon to administer these processes, is one of the most urgent needs of our time.

§ 5. Thus far we have treated money mainly in its psychological aspects, recognising the moral and intellectual damages of an unregulated money. It becomes evident that if the dictates of reason and justice regain a conscious social control of the economic system, money must be a chief instrument of that control. For every critical act in the economic process involves, is motivated by, and is measured in, money. Modern cost-taking and book-keeping, indeed, claim to express in exact quantitative form all that immense variety of activities of human brain and muscle that constitutes the operative economic system. The paramount importance of a sound monetary system, readily and accurately adjustable to the changing needs of the economic system, is unanimously admitted. But three issues relating thereto are much debated, the aim of monetary government, the authority to exercise that government, and the methods it shall employ. Shall we say that the aim of monetary control is to secure a supply of money, when and where it is wanted, that will enable sales of goods and services to take place, and contracts to be made, on terms that conform to the reasonable expectations of the parties to such sales and contracts, and to the public interest in the efficiency and productivity of the economic system thus operated? But what supply of money does conform to such 'reasonable expectations' and such 'public interest'? Here we open up a curious controversy upon the desirability of stabilising the price-level, if it can be done. The stabilisers are favoured in their appeal by the admitted evils of such violent fluctuations of prices as have recently occurred owing to the inflations and contractions of currency and credit. But condemnation of violent and dishonest changes does not commit us to the repudiation of all changes.

Assuming that the general price-level can be stabilised by the management of money, either on the lines advocated by Mr. Irving Fisher, or by some international regulation of

credit, such as the late Professor Lehfeldt advocated, would such stabilisation meet the 'reasonable expectations' of all parties to a sale or contract, and serve the public interest? Take two alternative cases. First, take an economic community (whether a single country or the economic world), in which industry as a whole is making so much progress, owing to improvements in technique and organisation, cheap power, and controlled population, that a considerable reduction of the real and money costs of production is taking place in most industries. The normal result of this lowering of costs would be to increase the output of goods and to reduce their prices, and unless this movement was compensated by a sufficient rise of prices in important industries conforming to the 'law of diminishing returns' there would be a fall in the general price-level, such as was actually taking place during the period 1870-1895, in most industrial countries. If the monetary system enables this general reduction of prices to take place, all members of the community, in their capacity of consumers, appear to share in the gain from reduced costs or increased productivity. Wage-earners will gain in the higher purchasing power of their money wages unless these wages are reduced in consequence of falling prices, and the resistance to such wage-cuts during a period of admitted high productivity and prosperity would be at its strongest. Recipients of fixed interest-payments, rents, and pensions, would also gain. Profits, it will be said, the reward of business initiative and enterprise, will be reduced, or will not make the large advances that would have accrued if prices had not fallen. But this contention assumes that aggregate net profits would be higher if productivity were restricted, and a smaller supply were marketed at higher prices. Now though this will be the case in certain sorts of goods the elasticity of demand for which is great, it has no general applicability. It would not pay the capitalist controllers of industry as a whole to cramp

its productivity, so as to maintain the price-level, and take a larger percentage of profit from a smaller aggregate of sales. For their money-profits even if thus increased, would be scaled down in economic values by their lower purchasing power.

A gradual decline of prices thus brought about by a reduced cost of the units of supply, would distribute the gains of industrial progress throughout the whole community in proportion to money-incomes. Though this is not an ideally equitable distribution of what may be termed the fruits of economic progress, since it does not correct the maldistribution of money incomes, it does secure for all members some share of the gain.

A further aspect of this fall in price-level demands attention. All industries do not share equally in this fall, attributable, as it is, to reduced costs per unit of production. Some industries, indeed, may show no fall but a rise in marginal costs. Their prices may be rising though the general price-level falls. Such may be the case with some important industries producing foods and raw materials. In such a period, if the falling prices in the manufacturing industries so stimulated purchases that the same proportion of the general income as before were spent in buying increased quantities of these manufactured goods, the price-level would fall fast. But if the wants of large bodies of consumers for these manufactured goods neared saturation point, they would divert some portion of their enlarged purchasing power from these goods to foods and other goods or services the prices of which showed no tendency to fall. The increased demand for goods conforming to the law of diminishing returns would raise their prices. The increasing proportion of income spent upon such goods would counteract the effect of falling prices in the manufacturing industries. It would also tend to draw an increasing proportion of capital and labour into these industries with rising prices, by making

them more profitable employments. At any rate, it would check the tendency to starve agriculture and rural industries for the growth of manufactures and city occupations. This compensating movement must to some extent explain the reversal of the price movement which took place after 1895. A larger proportion of the population of the world entered on a wheat diet and otherwise increased its consumption of the more costly foods and raw materials. This fact was testified by the growing advantage in exchange of the food-producing countries over the manufacturing countries. Now the point that interests us here is that the economic system appears under our unstabilised currency to provide a natural check upon a fall in the price-level, where the tendency to such a fall is due to reduced costs of production. By a transfer of purchasing power, from articles whose falling prices brings them down to saturation point to articles whose rising prices keeps them relatively 'scarce', a compensation is effected. Some fluctuation of the price-level is, no doubt, involved in this compensatory movement, but it need not be, generally is not, violent or rapid, and, due to intelligible causes related to the productivity of the several industries, should be fairly predictable. What happens, in the broad, is this. The gain from higher productivity, or lower costs, in the manufacturing industries, is taken by the consuming public, partly, in increased consumption of these manufactured goods, partly, in increased consumption of foods and other goods conforming to a higher cost, or lower productivity, economy. Assuming that the felt wants and desires of men are on the whole sound guides to economic conduct, this result is satisfactory.

§ 6. How would a stabilising policy operate in such a case as we have taken? In order to check the falling level of prices, due to some large rapid economies in the manufacturing processes, more money must be pumped into the economic system and put into effective circulation as purchasing

power. How this additional money will be applied as purchasing power will depend, no doubt, upon how it is distributed. If, as is commonly supposed, it passes into use, partly, through cheaper and larger bank credits issued to business men for business uses, partly, through the purchase by the issuing bank of securities from persons who will use the money they receive, not to buy other securities but to buy capital goods or consumptive goods, its first effect would appear not favourable to the end it sought to compass. The first result of this cheaper money would certainly lean towards an increased demand for capital goods in large measure enjoying the economy of high productivity. If its secondary effect, as it passed into wage incomes in the stimulated industries, was to evoke increased demand for foods and other high-priced goods, it would *pro tanto* operate as a stabilising influence. But it is by no means assured that the increased volume of money would be applied predominantly to the purchase of goods conforming to the law of diminishing returns and rising prices, the result desiderated by stabilisers. If it were not so applied, it would not help to expedite the adjustment which we have seen is provided by the natural play of human wants so far as these can operate through effective demand.

If this argument is sound, it does not appear that a stabilisation of prices by managed currency is needed to deal with changes of price-level due to the rise or fall of productivity in the various industries, or can contribute anything serviceable to the natural process of adjustment which tends to correct such fluctuations.

Nor is it evident that such stabilisation would make distribution of incomes more equitable. When a fall in the price-level, due to reduced costs and increased productivity, would have taken place, the stoppage of such fall would favour debtors at the expense of creditors, by enabling the former to pay back a smaller quantity of goods than they

would have had to pay if prices had been allowed to fall. Thus they would keep for themselves the whole gain from industrial progress. All recipients of fixed incomes, debenture holders, preference share-holders, mortgagors, pensioners, and salaried officials, would, except so far as they could force a readjustment, be losers, the whole gains of industrial progress passing to borrowers, ordinary share-holders, profiteers, and such groups of wage-earners as were strong enough to raise their money-wages.

If, on the other hand, stabilisation were directed to stop a rise in the price-level due to adverse economic circumstances, this balance would be reversed. Creditors and all fixed income recipients would gain at the expense of debtors and ordinary shareholders, in terms of real wealth. Stabilisation under either of these two situations would seem to distribute the gains of industrial prosperity or the losses of adversity more equally than if the natural fluctuations of price-level had been allowed to take place.

§ 7. The case for stabilisation, however, in respect to fluctuations of price-level due to operations on the monetary side, whether of inflation or deflation, bears a different complexion. The makers of money, purchasing power, are governments and private credit-making businesses, such as banks and finance houses. The history of money-making in all ages, has shown dishonesty and inefficiency far exceeding those in any other department of economic life. Bad money evidently poisons the entire economic system, whether the badness lie in debased quality or in unregulated quantity. The debased coinage issued by kings or governments was, of course, the meanest form of robbery on a colossal scale. This crude practice had virtually disappeared with the use of paper money, bank notes, and cheques as purchasing power. But the crooked practices of governments have not disappeared. The Great War showed that every civilised government under pressure of emergency was willing to take

wealth from its people by secret extortion instead of by honest taxation. Every government either fabricated money, or incited banks to do so, so as to enable them to purchase larger stores of munitions and other war goods than they could have purchased out of current sources of public revenue. This inflation by manufactured money was just common cheating due to cowardice. It did not enable governments to get anything they could not have got by honest pressure of taxation, or by commandeering. But it had the effect of raising prices rapidly, disturbing all business expectations, introducing a gambling spirit into all business processes, and enabling sharp greedy men to thrive on the misfortunes of their simpler fellow-men. In the countries of Central Europe, where it was carried furthest, it impoverished whole classes of deserving people, stopped industry, caused wide-spread starvation, and demoralised all marketing, from high finance down to the smallest retail trade. By the famines and industrial disorders it induced it probably slew more people than the war itself, and brought more misery. Its cure, by restoration of a fixed value for money, on a gold standard, has been only less painful than the disease itself. Even in Britain where the disease was comparatively mild, the remedy has inflicted heavy injuries upon our staple export trades.

§ 8. It will be urged, with a good deal of reason, that this abuse of the money-making power by governments is in modern times a rare abnormality, and that so far as governments control the monetary system their normal policy is to issue honest money to meet the requirements of the trading public. It will be pointed out that such fluctuations of the price-level as appear to be due to monetary causes are attributable, not to government money, but to credits issued by bankers and other financiers, whose cheques and paper form by far the largest source of modern purchasing power.

Modern money-reformers chiefly address themselves to the regulation of credit. Their complaint is that bankers, the main issuers of credit, cause injurious fluctuations in the price-level by the way in which they increase and restrict the issue of this credit. Their action is attributed, partly, to ignorance of the effects of their bank policy, partly, to some discrepancy between their business interests as bankers and the interests of the wider business public which they affect to serve. There is no suggestion that bankers are either less intelligent or more regardless of the public interest than other business men. But the play of the forces which they liberate by credit-issue is more obscure and intricate, and any error of judgment or any preference of private gain to public policy is more injurious. The difficulty of assessing bank policy in the light of public service is illustrated by the disagreement among economists upon the nature of credit-making. One school seems to hold that bankers (like their predecessors, the goldsmiths) simply lend out a large proportion of the funds entrusted to them, on a careful calculation of the pace at which they will be reclaimed, and make their gains by charging a higher rate of interest to those who borrow from them than they pay to their depositors. Others hold that bankers, utilising the currency part of their deposits and their subscribed capital and reserves as a basis, issue an amount of credit which at times largely exceeds the total of these deposits and bank assets, reckoning that the state of trade enables them to pursue this profitable course with safety.

If the former view be taken as correct, it is difficult to see how bankers can ever be accused of inflation. For as Mr. D. H. Robertson shows so clearly,[1] "The twin processes of real saving and the creation of bank money are seen . . . to be proceeding concurrently, bound together by real though

[1] D. H. Robertson, *Money*, chap. IV, p. 79 (Cambridge Economics Handbooks).

invisible and unconscious ties."- If real wealth is always brought into existence concurrently with credit issue, no rise of price will occur from the use of credit.

But this view is hardly in accordance with the recognised facts. Bank credit can and does at certain times inflate and raise prices, i.e., its issue is not attended by a corresponding creation of 'real savings'. In the upward movement of the trade curve, when more bank credit is needed to finance a larger volume of trade on a rising level of prices, it may be urged that the enlarged credit is accompanied by, and helps to produce, an enlarged volume of goods. But when the productive resources of the community have thus been brought into full employment, any further issue of credit must be pure inflation, the creation of buying-power where there is no increased wealth to buy. It is notorious that such over-issue of credit takes place and leads to speculative buying which causes prices of goods and securities to rocket. When the danger of this speculative price-raising becomes apparent, it brings a sudden shrinkage of bank credit, a calling in of loans which forces the sale of goods at unremunerative prices, stops further production, and brings on a trade depression. It is no adequate reply to say that, not the bankers' willingness to supply excessive credit, but the illegitimate demand for such credit, is to blame for these injurious fluctuations. It is the banker's business to know what are the natural results of large issues of credit at a time when the economic system is already functioning fully, and what the effects of suddenly contracting credit must be when prices show signs of falling. So far as bankers know what they are doing, they must be deemed to act in this way because they think they find profits in these inflations and contractions of credit. In this they may be right. A large part of their profitable business consists in financing business men who are themselves engaged in financial operations, in the formation of the financial structure of new

businesses, or the financial reconstruction of existing businesses, in the financial control of industrial policy, or in the speculative handling of stocks and shares. The banks, finance houses, insurance companies, stockbrokers and jobbers, and the private investors and speculators, who between them furnish capital and credit, and stimulate or depress productivity, constitute to-day a loose, informal, and sometimes chaotic government of the economic system. But the banks, the main credit-makers, are the central powerhouse in this financial government. Their wiser and more orderly issue of credit would be reflected in a greater regularity in the actual operation of the whole economic system.

It is the perception of this truth that makes the credit policy bulk so big to-day in every industrial country. The notion that private profit-making corporations, either competing with one another or in combination, or, still worse, oscillating between these two relations, can be regarded as safe guardians and administrators of the public welfare in so vital a matter as the supply and direction of money, is an almost incredibly foolish survival of the providential gospel of 'the invisible hand'. There can be no ground for assuming that on all occasions the policy most profitable for bankers will also be most profitable for the public. That pecuniary gains can be and are made, partly by bankers, but far more largely by financiers with access to bank credits, out of disturbances and hindrances of industrial productivity, no analyst of modern economic movements is likely to deny. This, indeed, is a necessary corollary from the exposure of the theory of a natural harmony between private gain and public welfare in a business system which is not consciously envisaged and conducted as a rational whole.

§ 9. That the rationalisation and moralisation of the economic system demands *imprimis* a conscious social control of money is gaining ever wider recognition. This does not necessarily imply the complete absorption of all credit-

making by the State. It may well be true that the detailed control involved in directing the local flows of credit into useful channels will best be left to private enterprise. But the larger policy of regulating the volume and direction of credit must certainly be a governmental function. To say that governments cannot be trusted to fulfil such a function honestly and efficiently, because of the tendency for 'politics' to get into finance, is not a reason for repudiating this duty, but is a reason for devising public controls from which such pressures may as far as possible be eliminated. When a man has a plain duty to fulfil, he must not plead his unfitness to perform it: he must hold it his duty to acquire the necessary fitness. So with the State. It must not acquiesce in the charge that it is too clumsy, mechanical, or corrupt, to be entrusted with the performance of a function recognised from earliest times as one of the prime functions of a State. The modern displacement of State cash by bank-made credit, as the main constituent of purchasing power, is a definitely retrograde step in social government. The regulation of the quantity and quality of the commodity, needed for the measurement of every economic value and the conduct of every economic process, cannot properly be left to private business men to be conducted as a source of personal profit. A good deal of the reluctance of business men and economists to entrust to a National Bank, or any other State authority, this task of credit-issue is attributable to the belief that because concealment of its financial situation may be sometimes advantageous to any particular business, it is therefore advantageous to business as a whole. Here is a plain example of the separatist fallacy, that the good of each must be the good of all. In point of fact, the secrecy attending particular bank loans and advances encourages certain forms of risk-taking which, though sometimes privately profitable, are dangerous to the business world at large. Complete transparency of business operations, especially upon the

monetary side, is not only good morals but sound business. The notion that concealment of vitally important monetary transactions can be serviceable to the public can only be entertained by those who believe in what we may call 'the economy of illusion'.

§ 10. Business men and politicians apparently persuade themselves that if, by misrepresentation, exaggeration, and concealment, they can evoke in the public mind an optimistic confidence, they can thereby cure a depression by stimulating activity in trade and industry. So far as confidence is a factor in evoking economic energy, this policy may be deemed successful in a particular case. But in debasing the moral currency it pays a heavy price. It is not really good for the business world to pretend that things are better than they are.

How prone money is to this economy of illusions appears from the support given by not a few economists to what one of them calls "The case for a gently rising price-level". "Of course the stimulus of rising prices is partly founded in illusion. The salaried official and the trade unionist have been beguiled into accepting employment for a lower real reward than they intended. Even the business leader is the victim of illusion: for he is spurred on not only by real gains at the expense of his debenture-holders and his doctor and even (with a little luck) of his work-people, but also by imaginary gains at the expense of his fellow business men." "But whether real or illusory, the spur is effective; for in economic as in other matters, human endeavour feeds partly on illusion and only partly on truth." [1]

It ought to be unnecessary to reply that to feed people on illusions, i.e., on misrepresentation of the facts, cannot nourish them for any serviceable activity. To trick ("beguile") men into thinking they are getting more than they actually get is equally degrading to the morals and the intelligence of the trickster and the dupe.

[1] D. H. Robertson, *op. cit.*, p. 125.

Security for honest money is a prime essential to any moralisation of the economic system. And honest money means that the parties using it for buying and selling must not be deceived by it as to the economic substance of their bargain, what respectively they are to gain by it. Honest money does not of itself ensure, or even tend to bring about, an equitable bargain, or serviceable distribution of wealth. That depends on conditions that lie outside the monetary process. Dishonest money, however, does alter the balance of each bargain, the distribution of wealth, generally for the worse, because it is commonly issued by, or in the interest of, the stronger bargainers. But its worst effect is that it injects a new element of 'unreason' or 'chance' into the business situation, and so paralyses the effective play of reason in economic conduct.

§ 11. What is the net result of this argument upon the proposal to endeavour by considered money policy to stabilise the price-level? It is, I think, this. The State bank, or other disinterested body for the issue of credit, should seek to check the cyclical fluctuations of price-level by trying to stabilise the level reached when the actual economic resources are in full employment. Such stabilisation, if it can be held, would, I think, encourage a distribution of income favourable to such high consumption as would maintain indefinitely the full productivity. The fact that the high productivity and full employment were thus maintained would tend to keep the price-level steady, preventing that fall of prices that is the precursor and the efficient cause of a depression.

But stabilisation should not be employed to stop a fall of price-level due to reduced costs of production from improvements in the technique and organisation of industry, trade, and transport. For a price-level stabilised under these conditions would distribute wealth more inequitably than if falling prices handed on the gain to the whole peoples in their capacity of consumers.

But no merely national control of money could satisfy the needs of an economic system that is continually growing more international, or, properly speaking, more cosmopolitan in its processes. Recent experiments in European and other national tariffs, which carry the intention, and in some measure the effect, of diminishing this internationalism, have by the difficulties and damages they have inflicted, borne signal testimony to the folly of seeking to limit the economy of coöperation by political considerations that are irrelevant. Financiers better than other business men are aware of this play, and recognise even more clearly the interdependence of monetary systems which in their first intent are 'national'. International help in the curbing of wild monetary plunges, and in stabilising national currencies, have been the most notable economic achievements of the post-war period, contributing more than any other medium towards the economic recovery of Europe. It is now generally recognised that it is of great importance for everyone to know for certain how many marks, francs, or lire an American dollar or a British pound will buy, although the number of persons engaged in such monetary deals on any considerable scale are few. For the course of actual trade across political frontiers, and so the amount of world-wealth anyone can get in exchange for the goods which he helps to produce, depend upon such guarantees of monetary expectation. The steadying of the exchanges by the adoption of a common standard, whether gold or some other agreed international measure, is desired by all who are familiar with the economic havoc caused by plunging and disorganised exchanges.

§ 12. If the solidarity of economic interests among mankind were adequately realised, it would find expression in an international currency issued by international authority in accordance with the needs of the several nations as attested by an impartial body of experts. At first that international currency would probably not displace the national currencies,

which would still operate for purposes of internal trade in the different countries, but would provide a reliable common money for foreign purchases. The difficulties of such a proposal are undeniable. In part, they are political, or in the last resort moral, the dislike which minds suffused with nationalism entertain for the large supernational power that would be wielded by this international monetary authority, the distrust in its integrity and efficiency. In part, they are practical difficulties relating to the principles that should govern the distribution of the international money among the national central banks. A federal international bank in which the national banks of the several countries would be share-holders, or some other similar form of international monetary cartel, would seem to be the apparatus most consistent with the evolution of modern institutions. It is, indeed, here we are confronted with one of the most critical experiments in federalism. At present the phase reached is that of occasional arrangements between the banking groups of different countries for the pursuance of a common policy in discount movements, or in loans for emergencies. But there is no reason why such coöperation should not develop into a fuller continuous and formulated policy, receiving what political support is needed.

The ethical principle involved is that which applies elsewhere to economic life, that of distribution of economic resources according to ability to use them. If the development, not merely of foreign trade but of internal industries in any country, is hampered by lack of sound currency and credit, the country itself being financially too weak to furnish the money needed, there is an obligation on the society of nations to assist in a process which, though often national in its first intent and benefit, contributes to the economic welfare of the world. The growth of an effective financial coöperation upon such lines may well be taken as the test issue of economic internationalism. How rapidly it may proceed will

depend upon the conjuncture of many political, economic, and moral forces, dissolving old national enmities, promoting the active movements of trade, capital, and labour, across political barriers, educating clearer popular understanding of the nature and advantages of easy international coöperation, and weaving positive feelings of human fellowship among men of diverse nationalities.

§ 13. One point remains. Money is essentially a facility for the voluntary interchange of goods or services: the wider the area of its operation, and the more reliable its action, the better for all concerned. It helps the efficient coöperation of sub-divided labour, and it links the working present with the working future. The establishment of a sound national and international machinery for the issue of currency and credit would have several beneficial reactions upon the economic system. By substituting public administration for private profiteering in the issue of credit, it would remove certain inflations and deflations which are injurious to trade, encourage speculation, and put large gains into undeserving hands. The steadying of price-levels, national and international, resulting from monetary control, would everywhere act as a stimulus to personal efficiency and industrial productivity by enabling business men more accurately to forecast the course of markets. Indirectly, this would contribute towards a more equitable distribution of wealth by abating the influence of superior monetary resources in making bargains and contracts. So far as it served to maintain full productivity and employment, it would strengthen the bargaining power of labour, and secure for the workers a larger share of the aggregate income of the community.

If national or international governments utilised their revenues from taxation or public monopolies to develop natural resources, or to promote other public works which, though beneficial in a human, or even in an economic sense, are not suitable for private business enterprise, the use of

money for such purposes might greatly enhance the wealth and welfare of the community. But though many benefits might thus ensue from an enlightened monetary policy, no such policy could in itself effect the more substantial reforms in property, and the distribution of productive energy and income, which are required in order to establish the rule of reason and of justice in the economic system. If the collective government of industry could be consciously realised in economic policies which minimised human costs of production and maximised human utilities of consumption, the monetary movements by which all concrete economic activities are conducted and registered would operate more smoothly and easily by reason of a sound finance. But it will remain as important for economic theorists, as for practical business men and wage-earners, to keep clearly in their minds the truth that money is ultimately nothing but an order on economic goods and services. For platitudinous as this may sound, the deceitfulness of money is still woven into innumerable forms of illusory thinking that ultimately turn on a denial of this platitude.

# CHAPTER X

## A HUMAN SURVEY

§ 1. Our enquiry into the relations between 'wealth' and life, economic and human values, has opened up two distinguishable, though not unconnected, issues of paramount importance. The first is that of the ethical or humanist appraisal of the modern economic system for the production and consumption of 'wealth', involving a consideration of proposals for minimising human costs and maximising human utilities in the distribution of productive efforts on the one hand, products on the other. The second issue is that of the proper part of the economic activities in the art of personal and social life, involving a reconsideration of the place and structure of economic science as a contribution towards an art of society.

A brief summary of our argument and tentative conclusions on the former issue will run as follows. Modern industry is essentially a coöperative or social process, both as regards the production of concrete wealth and the determination of its value. Strictly speaking, nobody can make anything for his own use, or for the market, without the prior or the current assistance of others. Even the solitary pioneer uses tools and skills which embody the activities, experience, and knowledge of countless predecessors. He could 'make' nothing without this social heritage. But when we enter an economic system in which men are making goods for a market, the coöperative nature of the work and its product is far more elaborate, involving not only this social heritage, but the current coöperation of innumerable workers

in other processes that precede, accompany, and follow, the particular process in which each man makes his personal contribution towards some marketable product. At each stage in the series of processes, by which raw materials drawn from 'nature' are converted into salable articles, we encounter tributary processes furnishing the tools, machines, power, and additional materials required for the worker in that process to ply his skill. Take any final product, a pair of shoes, a loaf of bread, a house, the number of persons, and the variety of activities that have contributed to its making, are beyond all possible computation. Nor is it merely a number of separate individual contributions. Most modern businesses are in themselves complex social organisations, in the sense that their products cannot be regarded as the mere aggregate of separate individual contributions: the coöperation is itself a productive power. The most elaborate costing cannot really solve the problem of measuring the separate contributions of the workers towards the total 'cost of production', for each worker is helped in doing his particular job by other workers in the same or prior processes, and the size, pace, and quality of his contribution are dependent on this help. In every business there are also to be found activities, managerial, supervisory, clerical, etc., rightly classed as productive, which in their nature evade measurement.

But if the business is a social organisation, so is the trade and its market. The directly conscious coöperation of the members of a trade for the pursuance of a common policy, the pooling of trade information, restriction or regulation of competition, price-arrangements, collective bargaining with labour, coöperative marketing, etc., is not the most important aspect of this social organisation. It is the structure and activity of the market that brings out most fully the social nature of industry and its product. For in the interplay of supply and demand in each market, a particular

product, itself, as we have seen, socially created, is brought into directly inter-active relations with all other productive activities throughout the entire economic system. For the play of 'demand' in the determination of the price, or exchange value, of the supply of any particular article, implies nothing less than this. The price which the pair of shoes, the loaf, the house, will fetch in a market, signifies the quantity of all sorts of real wealth available for distribution among the various persons who have 'made' the shoes, loaves, houses. Now this generalised wealth is what all the makers of the specialised wealth are after. The tanner, or the shoemaker, does not make shoes for his own use, but in order to get access to all sorts of goods by getting a price for his shoes. So with every specialised producer. How much he can get of each other various sort of goods which he requires, quite evidently depends upon the processes of coöperative production in innumerable businesses and trades of which he has no knowledge and no control. That is to say, the end or object of his specialised activity is an end or object determined in size and character by the intricate interaction and coöperation of all persons entering the market for his goods on the demand side, with articles which they are seeking to exchange against his shoes, or loaves, or houses.

This determination of the real reward in wealth coming to each particular producer is none the less to be described as 'social' because there is no fully conscious central social policy controlling it. There does exist, as we see, some degree of conscious social organisation within the several businesses, and even trades, for production, and to a limited extent for distribution, within a business or a trade, of the body of wealth obtained by selling in a market the special product. Moreover, organised finance furnishes some conscious control and direction over the allocation of new productive resources to the various localities and industries, though its direct control is as yet of comparatively restricted dimensions.

The growth and increasing reliability of information regarding present and prospective markets moves ever larger quantities of productive resources to apply themselves to the most profitable enterprises open to them, though inertia, lack of knowledge, low intelligence, local attachments, national, local, or trade barriers, and other impediments, prevent any adequate conscious world-economy, even on the lines of competitive profiteering, from establishing itself.

§ 2. The importance of a clear realisation of the actual social determination of values, through the processes of marketing, lies in the light it throws upon the economic wastes and the inequality of the distribution of human costs and utility or enjoyment. But how far is this principle applicable to human nature as expressed in economic activities? to each according to his needs' as an accepted principle of ethical perfection. If wealth is really, as we have shown, a social product, organised society, so far as it can, ought to see that it is produced and consumed in accordance with this principle of minimum human cost and maximum human utility or enjoyment. But how far is this principle applicable to human nature as expressed in economic activities? Taking the economic system and its product as they stand to-day, can the working of that system and the production of that product be made to square with the application of our principle? If every sort of 'producer' were paid in accordance with his 'needs' (or more properly, his ability to put wealth to a good use), would the available productive resources be economically applied? Or are there important classes, owning some factor of production, who would refuse the full productive use of it unless they were paid a price in excess of their 'needs'?

Recognising that the principle has a certain basis of biological necessity, in so far that a natural relation exists between output of energy and its replacement in food, rest, etc., we find this natural relation extended into wages of sub-

sistence, or of efficiency, for various sorts of labour. In the higher grades of labour it is a matter not merely of replacement of physical energy, but also of stimulating and maintaining the will to work. Intelligent and self-respecting workers cannot be got to put the requisite energy and skill into hard dull work, without some compensation in wage and leisure that exceeds the narrow interpretation of physical replacement. Shall we call the higher payment they require a contribution towards the principle of payment according to needs? At first sight 'need' seems to be used in a somewhat different sense from that conveyed in our formula. For there it signified capacity for useful consumption, whereas here it seems to imply a reluctance to be overcome, a necessary stimulus to work. Some work is in itself so repellent that nobody would undertake it, given free choice, except at a rate of pay which carries no implication that a good use will be made of it. Reflection, however, will, I think, endorse the view that where a physical capacity to work is impeded by a want of will to work derived directly from the nature of the work, or the conditions under which it is done, the extra payment required to liberate the labour-power must be brought under the economy of payment according to needs. The good use of this payment is that it energises the will to work. If, as may sometimes be the case, the extra payment is employed in waste or even injurious consumption, this consideration will rank as a deduction from the economy of needs, and may even cancel it in cases where the product evoked by the stimulus is not a necessity of life or a high utility to its consumers.

There are other cases of productive activity which at first sight seem more recalcitrant to our equitable formula. Possessors of rare skill, knowledge, initiative, judgment, organising power, may insist upon receiving as 'rent of utility' or 'profits' the full scarcity value which their natural or acquired ability can get in the market, an income which may

be far beyond their needs or capacity to put to any beneficial use. This is, however, not an extension of our earlier case. For, as we have seen, these high class or personal rents and profits are not necessary stimuli to the performance of productive service, in the sense in which the higher wages for repellent labour were. They are rightly classed as 'rents', by analogy with payments made to owners of serviceable land, in as much as they are 'surpluses' over and above the payments needed to evoke the productive effort of their owner. They are taken because they can be got, not because they *need* be got. They are not necessary to sustain the productive energy of their recipients, or to supply them with the income needed for a good life.

§ 3. But while our primary distinction between costs and surpluses and the association of the latter term with social waste and injustice, lead us to envisage a sound economic society as one in which all surpluses are absorbed in public income, or in the fulfilment of the personal needs economy, we have recognised that there are limits to any early general application of this principle. For this purpose surpluses fall into two categories. Economists have always realised that scarcity and differential rents of land and other internal resources fulfill no useful economic function, and can be taken by taxation without impairing the use of these resources. Nor can their absorption in public revenue be regarded as impugning the principle of distribution according to needs in the case of owners living on these rents. For to endow persons with a power of living without performing any useful function is to inflict a double injury, first to their personality, and secondly to the society from whom they withhold the personal services they might have performed, if they had to work for their living. The pace at which these injuries can be remedied must no doubt be qualified by consideration for established law, usage, and expectations. A wholesale withdrawal of rents and other surpluses would inflict unde-

served injuries upon classes unable suddenly to adjust themselves to the requirements of a new social-economic order. But equity and economy alike demand that land and other natural values should not remain private income for future owners.

Certain large elements of profits and dividends evidently fall into the same category. This is the case of the excessive gains of manufacturing, trading, and other business monopolies, or artificially contrived combinations. Though usually less stable and permanent than natural rents, regarded as payments for the use of capital and business enterprise they are equally obnoxious to our equitable formula, and are, in theory at any rate, equally susceptible to confiscation. For, though it is arguable that the displacement of wasteful competition by orderly combination may be a sound economic policy, it can only be a sound social policy, if society is adequately safeguarded against the extortions which often, if not usually, accompany the possession of a power to regulate production and fix prices. The distribution of excessive gains made from such sources violates the needs of economy.

Nor is there any force in the defence of such high profits on the ground that big prizes are necessary incentives to evoke certain orders of high business capacity. For the gains of monopolies and artificial scarcities do not evoke productive efforts. Rather they restrain and limit them. These super-profits are strictly speaking as functionless as rents in the operation of the economic system. Like rents they are taken because they can be got, not because they are necessary to the energetic working of the system. Moreover, even if lax usage regards such monopoly gains as 'prizes', there is no economy exercised in the use of such incentives. When it is recognised that the exercise of power is a much stronger motive with most able business men than money-making, it will appear that the wastefulness of these huge unmeasured prizes is thoroughly unsound social economy.

The case of large incomes of business men, made by superior skill, industry, organisation, and enterprise within the competitive system, falls under a different category. Industrial progress demands the services of men prepared to stake their material and mental resources in new lines of business, the adoption of new plant and processes, the opening up of new markets, experimental conduct essentially hazardous. This type of work we recognise as being of the highest social value. But in the complex of motives and interests that induces these men to do their work the prospect of large gains usually bulks big. They are usually pushful, confident, self-assertive men, determined to use their talents for their own advantage, and that advantage is envisaged most clearly in terms of money power. While this hard gain-seeking element may be capable of modification under a system which was more educative of the sense of public service, it is right to recognise that this acquisitiveness is a very obstinate and potent stimulus to the exercise of these exceedingly valuable services. This being so, it will remain a sound social economy to offer considerable prizes to evoke their use, although the incomes which they represent injuriously compromise the principle of distribution 'according to needs'. For these gains differ essentially from those rents and monopoly profits which we have been considering, in that, given human nature as it is, they are conditions of industrial advances in which the public shares. For though the inventor of a new technique, or other economy of production or of marketing, may be out for his own hand, regardless of the public good, his own advantage is bound up with the rendering of a public service. He cannot keep to himself all the gain of his activity. At the same time it is well to recognise that the distribution of the gain due to his productive work as between himself and the public is not based on any rational or equitable principle. The serviceable brain of a Mr. Henry Ford or a Mr. Rockefeller would, as we

suggest, probably operate just as effectively for ten or five per cent of the actual gains which the market enables him to take. There is simply no correlation between services rendered and rate of pay in such brain markets. The same reasoning applies to the high fees and emoluments paid to professional men of high repute in countries where wealthy men abound and professional reputations are raised to scarcity values. To ration such men on a 'needs' basis, however liberally interpreted, would be an unsound policy, until a far higher sense of social service prevails among the professional classes. But a good deal of such excess as may thus seem warranted, as inducements to high business and professional talent, may be corrected by a skillful exercise of the taxing powers, adjusted so as to reduce the net gains to their strictly economic limits. So far as the savings of the investor are required to finance experiments in industrial and commercial progress, this modified policy of prizes extends also to them. So far as it calls forth in the investing public a genuinely speculative spirit with some skilled judgment behind it, as distinct from a gambling spirit, it is economically justified, though here too a judicious system of taxation of incomes and inheritances may go far to restore the balance of distributive equity.

§ 4. Our survey thus discloses considerable obstructions to the displacement of an acquisitive society by a purely functional, the substitution of payment according to capacity for use, for payment according to economic pulls. A good deal of income, it would appear, must still be assigned in excess of consumptive 'needs'. The recalcitrance to the equitable principle is found both at the bottom and the top of the economic system. Workers in sheltered trades performing essentially disagreeable and onerous work, which has a high social utility, will, so far as free access to employments is available, tend to get rates of pay which have no relation to their 'needs' or capacity to put to a good use, rates

often obtained at the expense of other workers whose true 'needs' thus remain unsatisfied. This is a specific disturbance of the balance of distribution of wage-income. The other disturbance in the higher reaches of income is due to the insistence of certain owners of ability upon claiming for themselves a larger share of the gains, which their ability helps to produce, than they are able to put to a good use.

But while it is thus open to argue that the persistent and intense will to self-assertion in some useful types of men will always lead them to insist upon exploiting their personal gain the strategic advantage of their position in the economic system, there are important countervailing considerations. Our enquiry into the ethics of consumption leads us to a reasonable hope that a more refined and individual art of consumption, supervening upon a full secure provision for the primary needs of life, will, partly from reasons of humanity, partly from finer tastes, cancel or greatly diminish the demand for goods and services which involve dull, heavy, and degrading toil from fellow-men. This reaction issuing from the consumer, coupled with a deepening of social concern for humane conditions of labour among employers and the general public, should eliminate many, if not most, of these inhuman costs, with their disturbances of the equitable distribution of wage-income. Machinery is capable of taking over most productive operations that are definitely dull, heavy, and repetitive, while such toil as cannot be thus taken over, owing to essential irregularities of material or process, can be alleviated greatly by shorter hours, or alternative occupations. Though it would be purely fanciful to suppose that the street-mender or the dustman can find much conscious comfort in the evident social utility of his task, short hours, security of employment and of pay adequate to his customary standard of living, may considerably affect his attitude towards his job.

As for the higher levels of disturbance, there are already

signs of an abatement in the purely profiteering frenzy of the competitive capitalism that is passing away from large spheres of modern business. The organisation, management, and finance of great capitalist enterprises are seen to be passing more and more into the hands of men no longer mainly actuated, as were the pioneer business men of the last generation, by the craving for large, rapid monetary gains, but of men who regard their great complex instrument partly as a sphere for their display of managerial capacity, partly as a service for the satisfaction of a public need. The weakening control of the investor, and the increasing tendency towards debenture capital and other fixed interest, nourish this new psychology in the managerial mind.

§ 5. The suggestion, however, that these important businesses are in effect socialising themselves, by a process of ethical conversion of the directorate or management which guarantees an equitable and human consideration of all the interests involved, capitalists, staff, wage-workers, consumers, cannot, indeed, be accepted without question and qualification. While it may be true that the relative stability and security of many of these great concerns evokes some sense of social service in their controllers, and gives scope and interest to the arts of technical and business achievement, as distinct from the satisfaction of the gain-seeking instinct, there remains a sentimental factor in this alleged solution of one of our greatest economic problems that can hardly bear close inspection. It has a too close resemblance to the benevolent autocracy adduced so often to cut the Gordian knot in politics. Ruskin's famous appeal to the Landlords and Captains of Industry to assume and exercise the social obligations of their status, quite ineffectual in mid-Victorian England, can hardly be relied upon to-day in substitution for all direct measures of social self-government.

It is impossible to envisage a safe and satisfactory economic system emerging from a number of separate inde-

pendent economic concerns, each in sole control of some important function of the system. Such a scheme contains no accepted principles for equitable wage-fixing or price-fixing. Every weakening of the motives to utilise the price-fixing power in the interests of the capitalists would be accompanied by a disposition to deal liberally with the staff and the workers, for their claims and interests would have a nearer and more personal appeal than the diffuse interests of the large unknown body of consumers. Thus, as we have recognised, the existing conflict between capital and labour would be likely to be replaced by a conflict between trades or concerns with strong price-fixing powers and those with weak, between necessary-producing and luxury-producing, sheltered and exposed, industrial and agricultural trades. No voluntary sense of public service in the management could be relied upon to do adequate justice in a problem of distribution where no social law could be invoked.

§ 6. This line of reflection has led us to recognise the necessity of some definite scheme for economic government, representing the diverse interests involved, and competent in its form and its perspective to evaluate economic processes and products in terms of human costs and utilities, and to direct the use of economic resources by considerations of permanent welfare. The first steps in the concrete policy of such an economic government would be directed towards the elimination or reduction of certain processes detrimental to human physique, intelligence, or morals, and to a distribution of the product based upon considerations of maximum enjoyment. Experiments directed to distinguish those payments which are economically necessary, in order to elicit and sustain the most efficient application of economic resources, from those which are functionless surpluses, will be of primary importance in directing economic policy. For the socialisation of these surpluses by economic society, in order to apply them, partly, to communal service, partly, to a

raising of the general standard of personal living, will be a chief instrument not only of economic but of moral reform. For, as we have seen, the forcible seizure of such surpluses by strong or lucky economic individuals and groups, fortified by legal rights of property, has become in an increasing measure the source of conflict, waste, and moral disintegration, in modern society. Analysis of economic processes discloses these surpluses as essentially social in their origin, and, therefore, properly to be administered as social income. For constituting, as they do, the economic subsistence fund for a human policy of progress, they cannot safely or advantageously be left to be spent or saved in accordance with the current short-range wants and interests of individuals. The establishment of an absolute equality of economic opportunity which should dissipate these surpluses in raising the personal income of all members of the community, would, therefore, not suffice. This 'distributive state', as it is sometimes called, would give no security for the best human use of economic resources. A policy designed to use economic resources for the enrichment of human life must be a socially conceived and administered policy, just because, alike in origin and in utilisation, these resources and the activities that employ them are social, and society is something more and other than an aggregate of individuals coöperating for purely individual ends. How far the political state, as we have hitherto known it, is a competent instrument for the performance of this difficult and delicate new work of economic government, is sure to be a debatable issue. For, though the State, as guardian of the general interests of its members, and for purposes of revenue, must exercise certain controls over the economic system, and may be needed as an ultimate arbiter in issues involving public order and supply, it is in its present structure and mentality manifestly unfit for most purposes of economic government, alike in those processes which are definitely described as 'public con-

cerns', and in those where some general economic control alone is needed.

§ 7. Such progress in the conscious art of equitable economic government must, as our organic treatment indicates, have exceedingly important reactions upon the wider art of civilisation. To most modern thinkers the excessive strain and burden of industrialism and its related economic processes have seemed the chief obstacle to a desirable life. It is not that economic processes in recent times have been absorbing more of the time and energies of men. In the Western world, and especially in the countries most advanced in modern industrialism, the contrary is true. There has been, for the great body of these peoples, some alleviation of the economic burden, some considerable enlargement of other human activities, interests, and enjoyments. Even of the more backward peoples, whose feet are more newly set upon the ladder of industrialism, it can hardly be said that economic activities absorb a larger portion of their lives than heretofore. This, at any rate, is only true of a comparatively small proportion of the backward peoples of the tropics where nature is abundant in her food supply and population has not pressed on this abundance. For, though the spread of industrialism and machine-production has imposed regular work for long hours in factories or plantations upon peoples, accustomed formerly to short, irregular bouts of strenuous activity in hunting, building, or other processes, the general truth holds good that most primitive men devote their energies mainly to their necessary physical maintenance, and that progress in the industrial arts procures for them some liberation from this pressure. While systems of slavery, serfdom, or wage-labour may for a time absorb the fruits of industrialism in the leisure and the larger life of a master-class, the trend of modern history shows us an ever larger proportion of the peoples of industrialised countries sharing in some degree the liberative results of indus-

trialism. All the movements towards the humanisation of the economic system, which we have examined, may be regarded in the light of demands for a further and faster liberation of humanity from the thraldom of economic forces. At first sight the core of economic discontent and of the claims of labour may appear to take shape in a demand for a larger share of the economic product. And for the most depressed classes this is the first step towards a higher status in civilisation, viz., higher wages and more security of livelihood. But for all classes or peoples that have attained these elements of economic safety, the demand for more leisure and for a gathering number of non-economic interests, activities, and satisfactions, a filling out of human life becomes the paramount urge.

This is a far stronger and more prevalent urge, though not fully conscious or clearly formulated, than the accompanying demand for a voice in the control of economic operations. Indeed, it may be said that the latter demand is essentially contributory to the former liberative process. The workers want industry and employment put on such a footing that they will not need to work so hard, or to worry so much, about the elements of economic life. In the highly standardised routine processes which must continue to play a considerable part in industry, expert direction and management will afford little scope, need, or desire, for active participation on the part of the rank and file of employees, except in occasional incidents of a personal bearing. Whatever progress is made towards industrial democracy along the lines of representative government, it will not be necessary, possible, or desirable, that these routine workers should give much personal attention to, or take much active interest in, the job which is their particular contribution towards the economic upkeep of society. Though better education may give some appreciation of the complex of productive processes in which their work enters as an integral factor, the general

tendency will be towards so smoothly automatic an operation of such processes as to evoke little conscious interest in the participants. Security, equity, and standardisation carry this condition of thought-saving. Routine workers will necessarily look for the active interests of life outside the definitely economic sphere. Economic progress for them will spell safe livelihood, spare energy to utilise a larger leisure, and social provisions for the cultivation and enjoyment of all the tastes and activities that were starved under the old order.

But though a limited amount of this specialised and essentially uninteresting work may be regarded as a tolerable and a reasonable contribution from the members of society towards its economic upkeep, and not as a real sacrifice of personality, progressive welfare must evidently require that such work shall not predominate within the economic system. Social progress clearly demands that, as far as possible, human labour shall be displaced by machinery and non-human power in the supply of goods for the common physical needs of life, and that an ever increasing proportion of such energies as men give to economic processes shall carry elements of personal skill, interest, and achievement. While what belongs to common humanity must be furnished, and ever more abundantly, by standardised routine, in which men tend or superintend machines, the uniqueness of personality, even within the sphere of economic needs, must require that a growing proportion of productive work shall come within the realm of art, the moulding of materials into forms that fit the needs or tastes of an individual. Such work is not fine art, which has in it an element of universal appeal, but it demands conscious exercise of skill in its performance and the sense of completeness that distinguishes the work of craftsman from that of factory hand.

§ 8. But while social progress thus humanises economic life, by reducing the human costs of routine work and reduc-

ing the proportion which routine work itself shall bear in economic life, its supreme test lies in diminishing the part which economic interests and activities as a whole shall take in the life of man in civilised society. Where a person is engaged in producing goods or services for a market, the pressing interest of pay or personal gain necessarily interferes with the realisation of the utility of the work as a social function. In a really civilised society the whole complex of economic activities should occupy a dwindling part in the life drama. "Getting and spending, we lay waste our powers." The economy of life demands the reduction of economic processes which derive their significance from the 'niggardliness of nature', including human nature. A free life requires the liberation of the greater part of human energy for love and friendship, knowledge and thought, joy and beauty, things that are not marketed and are not 'consumed'.

§ 9. Those who confront this wide conception of deliverance from economic bondage not unnaturally look first and foremost to science as deliverer. During the past century the sense of man's mastery over nature, by the knowledge of her laws, has bred a new confidence in man. The physical sciences applied to the arts of industry could increase productivity beyond the dreams of avarice. Such was the early vision, clouded later by a growing sense of the refractory character of that part of nature termed human. The conflict between the early capitalist conception of a 'robot' system and the more human conception is not yet concluded, but in the more advanced industrial countries it turns in favour of the latter. Every year the recognition of the fact, that an effective exploitation of the forces and materials of nature for economic productivity is conditioned by willing and well-ordered coöperation among the 'human factors', obtains wider assent among business men. The problem of productivity is thus put upon a wider and a sounder basis.

Technically considered, the powers of wealth-production

which the advanced arts of industry place at man's disposal now and in the early future enormously transcend the actual output. Movements towards the full utilisation of these powers are persistently held up by two defects in human organisation. One is the wasteful conflict of interests between employer and employed in the several businesses and trades, between the stronger and the weaker trades in each country, and between nations or countries ranged as rival economic systems. These several sorts of conflict are serious obstacles to the organisation of the economic resources of the world for the maximation of productivity. If the material resources of the world were freely and equally accessible to all people possessing the knowledge, skill, and enterprise to exploit them, and the foods, materials, and commodities thus attainable were free of all markets, if workers and capitalists saw their common interests served by vigorous and willing coöperation in the various processes of production and transport, and statesmen ceased to confuse politics with economics, the human powers of production would be capable of a rate of wealth-creation vastly exceeding that actually attained, even in the most productive society that history has yet disclosed, the United States within the past decade.

But that capacity for high productivity would not be realised in actual production, unless the other defect of our economic system, the lack of correlation between producer and consumer, between the maximum rate of production and the maximum rate of consumption, were rectified. In other words, the just significance of 'the economy of high wages' is essential to the realisation of full productivity. For unless the distribution of the product, through the apportionment of money incomes, is such as to stimulate consumption to keep pace with every increase in rate of production, the powers of productivity must continually be checked or brought to a standstill by insufficiency of markets.

Better or more equal distribution thus ranks as an indis-

pensable condition of high productivity. Security of livelihood for all, with rising intelligence and confidence in man's control over nature, would evoke a dynamic economy of consumption that would not merely furnish full employment to all existing powers of production, but bring about improvements in technique and organisation at an accelerating pace. Competition for markets, with its wasteful over-development of advertising and selling agencies, would be replaced by a constant strain of consumers' demand upon the productive resources of the economic world.

But this enlarged productivity under the pressure of a rise in the general standard of consumption need not, and should not, imply any net growth in the human costs of production, or any enlargement of the place of industry in life. For after security of livelihood, with full satisfaction of the common requisites of civilised existence has been won for all, consumption more and more assumes the character of an art. It becomes more qualitative and individual. Improved standards of material consumption will signify not more but better foods, clothes, furniture, etc., thus operating as a demand for better qualities of workmanship, and grafting final processes of individual skill upon the earlier routine or mechanical processes in the history of commodities. Still more important in this qualitative art of consumption will be the increased proportion of expenditure upon non-material goods and services, including in the category 'non-material' such things as books, pictures, and other art products, the material part of which forms an insignificant part of their yield. The double gain from a qualitative improvement of consumption, enabling the finer and more creative activities of producers to function in the supply of forms of wealth, the more durable of which are literally infinite in the utilities they contain, is a testimony to the illimitable possibility of the progress of man under a truly equitable and intelligently ordered economic system.

§ 10. There remains, however, one difficult but indispensable condition to the realisation of this vision of increasing human wealth with reducing costs of production, namely a regulation of the quantity and quality of population. Our discussion of this subject showed, as might have been expected, that it is less amenable to reasonable modes of settlement, either theoretical or practical, than any of the other subjects that have come under our survey. The substitution of the conception of an optimum density for the vague physical subsistence limit of the earlier Malthusianism, though serviceable as a starting point, does not lead us to a goal. Its only definite meaning envisages the right population for a country, or for the world, as determined by the highest output of other economic goods per unit of the population after a sufficiency of food and other prime material requisites of life have been provided. But such a definition is seen to be defective in several respects for our purpose. In the first place, it applies an exclusively economic valuation to a case where other non-economic values are involved. Those who form a high estimate of the worth of life, as such, its surplus of happiness or satisfaction, will favour a higher optimum density for a given country than those who value low, what they would call mere animal existence, setting store only on the higher human satisfactions. Again, by taking as its criterion quantity of general wealth, it ignores the bearing of those qualitative considerations of production and consumption mentioned above. A thoroughly standardised community may have a higher optimum density than a more individualised people, though most thoughtful persons would prefer a smaller but finer number of personal beings to a larger herd. Since the maximum total output per man will depend upon the proportionate utilisation of industrial processes that conform most fully to the economy of large-scale standardised production, it is evident that a serious question is prejudged by the adoption of the maximum output test.

Again, the optimum density test, however suitable for current economic valuation, will not satisfy the demands of a full human valuation. For its assessment of economic wealth is based on the actually desired, not on the humanly desirable. Those who hold that the true values, either of economic or of other activities, consist in certain high refinements of intellectual and moral culture, may prefer a society where the leisure of all, or even of a favoured class, shall furnish opportunities for these higher qualities of life.

But such considerations indicate how impossible it is to discuss the quantitative question of an optimum density apart from the qualitative. Whether the optimum density of a given country would be higher for a population of crude materialists than for a population of cultured supermen, may be a disputable question, but it would certainly be a different density. In a word, the optimum density will depend for one of its conditions upon the character of the population.

That certain strains or stocks in a population are better than others in physique, intelligence, or 'character', and that, after due allowance is made for defective knowledge as to the effect of crossings, it would be socially desirable to encourage the propagation of such stocks, and to discourage the propagation of stocks worse in these respects, is indisputable. There would be substantial agreement upon certain definitely sound and other definitely unsound types of parentage, though wide fields of controversy would remain. Though the laws of human heredity are still so inchoate, and the relative importance of heredity and environment so sharply contested, few would deny that there is reasonable ground for holding that certain desirable and undesirable characters are transmissable, and that if one of the two parents possesses them, they will probably be transmitted to all or some of the offspring.

§ 11. The economic problem, as we recognise, finds its widest application and its most crucial issue in racial valua-

tion. Here also the problem is complicated by disputes as to the extent and importance of admitted racial differences, and as to the permanency of racial characters in a new physical and social environment. Here, moreover, we are encountered in a more intense degree with the difficulties arising from the lack of an accepted standard of human values. To the attempts to bounce, or bluff, a hierarchy of racial values under a semi-mystic Nordic supremacy, no intellectual or moral validity can be attached. But because no thoroughly disinterested or objective criterion of racial values is attainable, we are not justified in dismissing the problem as insoluble. Indeed, it cannot remain a matter of indifference to those concerned for the civilisation of the future, in what proportions the various known races inhabit the earth. The stabilisation, or even the reduction, of the white populations which have advanced furthest in Western civilisation, is apparently attended by a rapid increase in certain backward peoples of Asia and Africa. If this movement continues, these backward peoples must bulk ever bigger in the aggregate of humanity. If, however, they prove capable of taking on at a fairly rapid pace those arts of industry and of consumption in which Western civilisation has made its chief advances, they must also come to exercise populational control, halting at some optimum density. In that event, humanity may seem secure for an orderly control of progress.

But how if some of these races remain backward in everything save the growth of low standard populations pressing on the means of subsistence? Here, as we recognise, the gravest of all human problems of the perhaps not distant future emerges. If international organisation for political, economic, and humanitarian causes gains a stronger footing, its thinkers and administrators must more and more be compelled to confront concrete issues raised by these populational pressures, with their increasing demands upon the

surface and resources of the earth. If, as we have argued, rationing according to capacity for use is the essence of economic government, such international organisation as can assume the requisite powers, will be bound to direct its rationing process to population itself. What the more sparsely peopled white countries are already doing for themselves, the world-community must eventually learn to do for itself. To those who recognise that this rationing involves supersession of the most highly valued of the self-determining functions of nations, this international rationing of flows of population will seem utterly impractical. And so it will essentially remain, until and unless the sentiment of humanity comes to transcend the sentiment of nationality, and a patriotism emerges which will be ashamed to shirk its proper share in the solution of the root problem of human welfare.

Here then are the firmly interlocked conditions of a civilized humanity in which the distinctively economic activities will occupy a dwindling part, leaving an increasing volume of human energy for the free creative activities of persons and communities.

(1) Increasing productivity by improved control over nature and better human organisation of economic activities.
(2) An equitable and wasteless distribution of the product of economic activities.
(3) Improving arts and standards of consumption with their reactions upon the productive processes.
(4) Such control over the quantity and quality of populations as is attainable with better knowledge of strains and racial values, and an increased willingness to accept controls.

So far as these conditions are attainable, they furnish the economic framework for a conception of the progressive welfare of humanity. The first three conditions will easily be accepted as falling within the legitimate scope of Economics, though that science has paid little attention to the arts and

standards of consumption. The population question, the subject of our fourth condition, though admittedly transcending Economics in its wider biological and sociological applications, has from the time of Malthus always occupied a place of some importance in economic treatises, though almost always in its quantitative influence upon wealth-production through the law of diminishing returns. Although within recent years this importance has greatly risen, it remains a distinctively quantitative issue, as the new theory of Optimum Density serves to indicate. For, though it may be claimed that the optimum conception has express regard to a high standard of living, that height itself is conceived wholly in terms of quantity of marketable goods.

I am not finding fault with this limitation of the economic treatment. It is, I think, consistent with the whole trend of a science, taking as its central subject-matter marketable goods expressed in monetary values, that it should treat population primarily in its relation to the volume of output. To ask of economists, as Ruskin did, that they should translate their wealth into terms of 'life', was to ask them to merge altogether their economic study in the all-embracing science and art of human values. For, as we have shown, all modern attempts at humanising economics, by translating market valuations of goods into human valuations of their costs and utilities, exhibit these human economic values as inseparable organic parts of wider vital processes. While it is essential that this wider human assessment should take place, it cannot be contained within the limits of an economic science. But that does not invalidate the policy of an intellectual division of labour, in which a quantitative Economics has its proper place. It only requires that Economics shall proceed, like other sciences, by a process of abstraction and assumptions which are a serviceable falsification, or simplification, of the subject-matter submitted to this scientific treatment. It is a profound mistake of economists to express

indignation at the charge that they claim to handle an 'economic man', specialised in selfish gain-seeking, and addicted to buying in the cheapest, selling in the dearest markets. For, while in their inductive studies of economic processes they are bound to discover the operation of other motives and proclivities, they will in proper conformity with their scientific method, regard these as 'friction' interfering with the purely economic conduct. Whenever economists, as such, attempt to fill out their economic man to the full stature of humanity, they get into inextricable difficulties. In all the deductive framework of an economic science, it is right frankly to adopt, in the 'as if' spirit,[1] a simplification of man, in his capacity of producer-consumer and buyer-seller, comformable to the general trend of his activities and conduct, though not closely representing the personal and occupational qualifications. In the objective studies, upon a statistical basis, to which economics is more and more addicting itself, the consideration of non-economic motives and activities are necessarily brought up for purposes of interpretation and, in so far as is admissible, of quantitative estimation.

The new knowledge, acquired by observation and experiment in the field of industrial psychology, is laying a solid foundation to an inductive political economy, and is sapping the distrust with which the practical business man formerly regarded the counsels and prophecies of theoretical economists. Much of this knowledge, the accurate records of close study of economic behaviour, may also be regarded as an approach towards a more humanist interpretation of economic processes, in so far as it re-inserts in the economic plan many of the factors eliminated in the earlier search for the laws and principles of a deductive science.

Much further progress can be made by statistical enquiries directed to the study of the interactions of the volume of

[1] Cf. Vaihinger *The Philosophy of 'As if'*.

production and consumption, treating distribution as an independent variable. In particular the structure and variations of standards of consumption in different economic communities and grades of income present a large and well-nigh virgin field of study. A strictly behaviourist science of this order can supply valuable new funds of economic knowledge to the wider art of human government.

§ 12. But economists, as such, cannot interpret their values in terms of human value. The two treatments of the population question stand as the most crucial example of a necessary divergence of valuation. The economic treatment will remain essentially quantitative, the humanist treatment qualitative. The former will seek to answer the question 'How many men can live with the highest average standard of economic life upon this area?' The latter will ask, 'What population will yield the best results in terms of human personality as expressed in due satisfaction of all physical and spiritual needs?'

The contribution of a behaviourist economics to this civilising process will consist in developing a technique and organisation which will continually reduce the human costs and increase the human utility of economic goods and services, thus liberating an ever larger proportion of the growing energies of a better natured and better nurtured humanity for non-economic activities and enjoyments.

The success of such an economic art will be registered in terms of its effacement. It has been said that 'The end of all good government is to make government superfluous'. May it be said that the end of economics is, though not, indeed, to render economic processes superfluous, at any rate continually to reduce the part they play in comparison with those "unbought graces of life", those free creative activities, in which production and consumption are fused in costless satisfactions.

*Finis.*

# APPENDIX

# APPENDIX

## INTRODUCTORY

*Questions*

1. Trace the several steps connecting economic with ethical values.
2. Should the sphere of ethics be extended from the distinctively moral area of "right and wrong" to cover the whole field of human welfare? What, if any, changes in the significance of the term "ought" would such extension involve?
3. How far does American experience accord with the modern tendency of English economists to qualify economic by moral standards of conduct?
4. What changes have taken place in the attitude of American business men and ordinary citizens towards the policy of unfettered private enterprise since the "eighties"?
5. Is the biological the best starting-point in developing a theory of human welfare, or is some "urge" involved in human evolution not adequately expressible in biological terms?

*Subjects for Study*

1. The ways in which the factors of personal idiosyncrasy and immediate environment interfere with the establishment of any objective or generally accepted standard of the desirable life.
2. The pioneer mentality in its reactions upon economic theory and practice.

*Books*

W. Fite, *Moral Philosophy*, Dial Press.
J. A. Hobson, *Free Thought in the Social Sciences*, The Macmillan Company.
E. R. A. Seligman, *The Economic Interpretation of History*, Columbia University Press.
T. Veblen, *The Place of Science in Modern Civilization*, Viking Press, Inc.
Graham Wallas, *Human Nature in Politics*, Alfred A. Knopf.

# PART I

## CHAPTER I

*Questions*

1. How and to what extent do economic theories influence the economic practices of Governments and the business classes? Illustrate from the history of modern capitalism.
2. What different *motifs* are traceable in the humanist criticism of modern industrialism?
3. How did Ricardian economics fit into the general theory of the Benthamite philosophy?
4. How far is it right to regard the early classical political economy as a defence of the new capitalism?

*Subject for Study*

1. The XIX-th Century humanist criticism in America.

*Books*

T. Carlyle, *Latter Day Pamphlets*, Charles Scribner's Sons.
E. Carpenter, *Civilization, Its Cause and Cure*, Charles Scribner's Sons.
E. Halevy, *The Growth of Philosophic Radicalism*, The Macmillan Company.
J. L. & B. Hammond, *Life of Lord Shaftesbury*, Harcourt, Brace & Company.
J. S. Mill, *Autobiography*, Columbia University Press.
John Ruskin, *Munera Pulveris — Unto this Last*, E. P. Dutton & Co.
H. Thoreau, *Walden*, A. L. Burt Company, Inc.
G. Wallas, *Life of Francis Place*, Alfred A. Knopf.

## CHAPTER II

*Questions*

1. How would you express the different factors in human welfare?
2. What qualifications are required to the statement that Life is a fine art?
3. Are all values "conscious"?
4. Is there "an original tendency to think"?
5. In what sense is the intellectual life disinterested?
6. What is meant by describing man as a "reasonable animal"?

*Subjects for Study*

1. The place of play in the economy of Welfare.
2. The organic approach to a study of Welfare.

*Books*

T. N. Carver, *The Economy of Human Energy*, The Macmillan Company.
G. A. Coe, *The Motives of Men*, Charles Scribner's Sons.
C. H. Cooley, *Social Process*, Charles Scribner's Sons.
W. McDougall, *Contemporary British Philosophy*, *Outlines of Psychology*, Charles Scribner's Sons. *Social Psychology*, John W. Luce & Company.
A. C. Pigou, *The Economics of Welfare*, The Macmillan Company.
E. A. Ross, *Social Control*, The Macmillan Company.
Graham Wallas, *The Great Society*, The Macmillan Company.

## CHAPTER III

*Questions*

1. What different meanings can be given to "group feeling" and "a group mind"?
2. What is the worth of analogies drawn from the life of ants, bees, and other social animals?
3. Is "organisation" preferable to "organism" as a description of human society?
4. In what sense can values be attributed to associations?
5. "This is the paradox of association — of civilization — that a man becomes at once more like and more unlike his fellows." Discuss this statement.

*Subjects for Study*

1. The different kinds of good accruing to individuals from association.
2. The part played in social theory by the fear of a "herd mind" and "mob-rule."

*Books*

C. H. Cooley, *Social Organization*, Charles Scribner's Sons.
F. Giddings, *Studies in the Theory of Human Society*, The Macmillan Company.
M. Ginsburg, *Psychology of Society*, E. P. Dutton & Company.
E. W. Hirst, *Ethical Love*, Allen & Unwin.

L. T. Hobhouse, *Development and Purpose*, The Macmillan Company.
R. M. Maciver, *Community*, The Macmillan Company.
Mukerjee & Sen-Gupta, *Introduction to Social Psychology*, D. C. Heath and Company.
R. B. Perry, *A General Theory of Values*, Longmans, Green & Company.

## CHAPTER IV

*Questions*

1. To what extent is the adjustment of values in a standard of welfare a conscious economy?
2. How far are standards stable, and how do you express the laws of their changes?
3. Different types of men have different standards. Are they equally valid?
4. In what ways is a hedonist standard illusory?
5. How far are the terms "higher" and "lower" synonymous with "self-regarding" and "social"?
6. Does "the higher life" imply more or less conscious coöperation?
7. What light does the doctrine that "all men are born equal" shed upon the problem of standards of welfare, and how far is this doctrine true?

*Subjects for Study*

1. The influence of physical environment in determining standards of personal welfare.
2. The validity of "common sense" as a guide to good living.
3. Standardisation in its effects on personality.
4. "All progress comes from the initiative and leadership of individuals and the acceptance by the mass". How much reason or "real will" is expressed by such acceptance?

*Books*

J. Dewey, *Human Nature and Conduct*, Henry Holt & Company.
Count Keyserling, *The World in the Making*, Harcourt, Brace & Company.
R. M. Maciver, *Community*, The Macmillan Company.
G. Tarde, *Les Lois de l'Imitation*, F. Alcan.
W. Trotter, *The Instinct of the Herd*, The Macmillan Company.

### CHAPTER V

*Questions*

1. "All values are in practice comparable". Discuss this statement.
2. Compare the extrovert's hierarchy of values with the introvert's. Has either an objective validity?
3. *Mens sana in corpore sano.* What light does modern psychology throw upon the form and validity of this maxim?

*Books*

Same as for Chapter IV.

## PART II

### CHAPTERS I AND II

*Questions*

1. What does "the economic determination of history" imply, and how much value attaches to it?
2. Discuss Veblen's claim that economic conditions mould the mentality of a people.
3. Why was Economics so late in its appearance among the sciences?
4. What part did the physiocrats play in the promotion of economic science?
5. How did Adam Smith's moral philosophy influence his political economy?
6. Trace the different meanings of "Wealth" in the evolution of economic science.
7. What part did J. S. Mill, Stanley Jevons, and Alfred Marshall respectively, play in the humanisation or moralisation of economics?
8. How far can "the measuring rod of money" be of service in estimating the "psychic income" of a community?

*Subjects for Study*

1. The connection between the rise of Political Economy and the Protestant movements.
2. The difference between the operation of economic laws and the laws of the physical sciences.

*Books*

James Bonar, *Philosophy and Political Economy*, The Macmillan Company.
L. H. Haney, *History of Economic Thought*, The Macmillan Company.
J. A. Hobson, *Free Thought in the Social Sciences*, The Macmillan Company.
W. S. Jevons, *Theory of Political Economy*, American Book Company.
A. D. Lindsay, *Karl Marx's 'Capital'*, Oxford University Press.
A. C. Pigou, *The Economics of Welfare*, The Macmillan Company.
R. H. Tawney, *Religion and the Rise of Capitalism*, Harcourt, Brace & Company.
Max Weber, *General Economic History*, Adelphi Company.

## CHAPTER III

*Questions*

1. What was the doctrine of the "invisible hand," and how far was its guidance recognised as distinctively moral?
2. How far did the classical "law of distribution" signify that each got what he "must" get or what he "ought" to get? What meaning do you assign to the statement that under free competition each man tends to get "what he is worth"?

*Subjects for Study*

1. The influences of modern Biology and Psychology upon the methods of economic science.
2. Should distinctively ethical considerations be introduced into economic science, or only, as qualifying conditions, into economic art?

*Books*

J. A. Hobson, *Work and Wealth*, The Macmillan Company.
R. G. Hawtrey, *The Economic Problem*, Longmans, Green & Company.
J. N. Keynes, *Scope and Method of Political Economy*, The Macmillan Company.
J. M. Keynes, *The End of Laissez Faire*, Hogarth Press.
A. C. Pigou, *The Economics of Welfare*, The Macmillan Company.
W. L. Thorp, *Economic Institutions*, The Macmillan Company.

# PART III

## CHAPTER I

*Questions*

1. Productive energy and capacity to use are the bases of property. How are they related? Discuss Locke's qualification.
2. What rights of property are essential for self-realisation?
3. To what extent is it true that "property for power" has displaced "property for use"?
4. How does "the social determination of value" affect the rationale of property?
5. Is taxation an invasion of the rights of property, justified only by necessities of State?
6. Discuss the right of inheritance, copyright, patent rights. What limits can society reasonably set upon these rights?

*Subject for Study*

1. Changes in the organisation of industry in their reactions upon the modern attitude towards property.
2. Property as a moral Trust justified by its administration. Develop and discuss this thesis.

*Books*

B. Bosanquet, *The Civilisation of Christendom*, Sonnenschen.
J. L. & B. Hammond, *The Rise of Modern Industry*, Harcourt, Brace & Company.
*Property*: *Its Duties and Rights*, The Macmillan Company.
J. A. Hobson, *The Evolution of Modern Capitalism*, Charles Scribner's Sons.
Werner Sombart, *Moderner Kapitalismus*, Dunker and Humblof Müenchen.
Werner Sombart, *Britain's Industrial Future*, E. Benn.
W. L. Thorp, *Economic Institutions*, The Macmillan Company.

## CHAPTER II

*Questions*

1. In what ways does education affect the attitude of the workers towards their economic lot?
2. Why is there less organised discontent among American workers than in most European countries?

3. In what ways can industrial peace be best promoted within the confines of the single business?
4. What do you understand by a "subsistence", a "living", a "fair", and a "reasonable" wage? How far can these terms be made applicable to the reward of capital?
5. How far does modern industrial organisation tend to substitute opposition of trades for the conflict of capital and labour in the several trades?
6. What do you understand by "the surplus"? How does the use of this term here differ from the Marxian use?
7. What part does the law of "diminishing return" play in explaining the mal-distribution of wealth?
8. What ethical significance attaches to the power of "high finance"?

*Subjects for Study*

1. "Allowing for friction and some maladjustment the economic system deals substantial justice".
2. The proper functions of an economic surplus.

*Books*

Edwin Cannan, *Wealth*, P. S. King & Son.
G. Cassel, *The Theory of Social Economy*, Harcourt, Brace & Company.
Henry Clay, *Economics*, The Macmillan Company.
J. A. Hobson, *The Industrial System*, Charles Scribner's Sons.
J. A. Hobson, *The Conditions of Industrial Peace*, The Macmillan Company.
A. J. W. Keppel, *The Theory of the Cost-Price System*, Allen & Unwin.
J. Haldane Smith, *Collectivist Economics*, Rutledge.
F. W. Taussig, *The Principles of Economics*, The Macmillan Company.

## CHAPTER III

*Questions*

1. Under what conditions does a market distribute the gains of its buying and selling equally among the participants?
2. What are the peculiar circumstances of a labour market which differentiate it from other markets?

3. In what different forms does "surplus" emerge from the processes of bargaining?
4. Is marketing conducive to the sense of social service?

*Subjects for Study*

1. Examine the opposing tendencies towards combination and free competition in the modern economic system.
2. The use and abuse of the "Crusoe" economics.

*Books*

O. F. Boucke, *Principles of Economics*, The Macmillan Company.
E. Cannan, *Wealth*, P. S. King & Son.
J. A. Hobson, *The Industrial System*, Charles Scribner's Sons.
A. Marshall, *Principles of Economics*, The Macmillan Company.
E. D. Page, *Morals in Modern Business*, Yale University Press.

## PART IV

### CHAPTER I

*Questions*

1. Discuss the moral validity of the communist formula: "From each according to his powers, to each according to his needs". Under what conditions can it be successfully applied?
2. How far do recent changes in industrial organisation evoke or repress a sense of social service?
3. What is meant by a Functional Society?
4. Discuss Laski's criticism of the "needs formula".
5. "A conscious minority always rules in politics, business, and other social activities". In what sense is and must this remain true?
6. Does the equality of man justify equality of income?
7. Socialism is said to involve (*a*) confiscation of private property (*b*) diminution of personal liberty (*c*) compulsory labour (*d*) inefficient bureaucracy (*e*) political corruption. Discuss these charges.
8. Is any *modus vivendi* possible between Socialism and private enterprise?

*Subjects for Study*

1. "Equality of Opportunity" as a moral and economic principle.
2. There is a natural relation between intake of food and output

of energy. How far is this capable of development into a natural law of distribution for work and income?

*Books*

H. Dalton, *Inequality of Income*, Rutledge.
H. J. Laski, *A Grammar of Politics*, Yale University Press.
H. J. Laski, *Communism*, Henry Holt & Company, or Williams & Norgate.
H. J. Laski, *Britain's Industrial Future*, E. Benn.
A. D. Lindsay, *Karl Marx's 'Capital'*, Oxford University Press.
R. H. Tawney, *The Acquisitive Society*, Harcourt, Brace & Company.

## CHAPTER II

*Questions*

1. Criticise the hierarchy of occupations as given on page 244.
2. Suggest other bases than "creative activity" for a hierarchy.
3. Is the main incentive of an artist self-expression, love of beauty, or communication of feeling?
4. If the fine arts were socialised, what would happen to them? Here consider Education as a fine art.
5. Is pay, or profit, a motive of diminishing importance for the big business man? If so, what other motives are reducing its predominance?
6. Is the economic system economically administered as regards the money prizes offered to successful business men?
7. What can publicity and education do towards creating a widespread and stronger "sense of social service"?

*Subject for Study*

Types of successful business men in America.

*Books*

J. M. Clark, *The Social Control of Business*, University of Chicago Press.
Henry Ford, *My Life and Work*, Doubleday-Doran & Company.
J. A. Hobson, *Incentives in the New Industrial Order*, A. & C. Boni.
Sir J. Stamp, *Morals in Modern Business*, Yale University Press.
Sir J. Stamp, *The Christian Ethic as an Economic Factor*, Epsworth Press.

## CHAPTER III

*Questions*

1. Distinguish the several "claims" of Labour and their relative importance in the modern mentality of workers.
2. Does most wage-work tend to become less interesting?
3. In what different ways are the workers obtaining a voice in the control and management of business?
4. How would you construct a "representative" government for (*a*) a business (*b*) a trade, and what part would labour play in such government?
5. Examine the statement that modern machinery mechanises the worker.
6. Does machinery lighten the burden of labour?
7. "Some dangerous, disagreeable, and degrading work is necessary to the welfare of the community". Is this true, and if so, how should it be obtained?
8. How far is the prosperity of the United States due to better application of incentives to efficient labour?

*Subjects for Study*

1. The relations between higher productivity and better distribution of the product.
2. Examine the case for and against "Family Allowances".
3. Modern industrialism means city life. The general effects of this centralisation of population upon character and welfare.

*Books*

C. Delisle Burns, *The Philosophy of Labour*, Oxford University Press.
E. M. Burns, *Labour and the State*, P. S. King & Son.
J. M. Clark, *The Empire of Machines*, Yale Review, October 1922, Vol. XII, No. 1.
Paul H. Douglas, *Wages and the Family*, University of Chicago Press.
J. A. Hobson, *Incentives in the New Industrial Order*, A. & C. Boni.
E. Rathbone, *The Disinherited Family*, Longmans, Green & Company.

## CHAPTER IV

*Questions*

1. How does the function of the capitalist appear to himself and to the wage-earners?

2 Distinguish the sources of saving. How are the proportions between saving and spending adjusted for the national income?
3. Describe the mechanism for collection and distribution of the general investment fund.
4. Would a more equal distribution of income cause under-saving and retard industrial progress?

*Subjects for Study*

1. The effect of a rise or fall of rate of interest upon the volume of savings.
2. Veblen's charge of "financial sabotage".

*Books*

H. Abbati, *Unclaimed Wealth*, The Macmillan Company.
E. Cannan, *The Economic Outlook*, Viking Press, Inc.
Foster & Catching, *Profits*, Houghton Mifflin Company.
J. A. Hobson, *The Economics of Unemployment*, The Macmillan Company.
T. Veblen, *Engineers and the Price System*, Viking Press, Inc.

## CHAPTER V

*Question*

1. Why has consumption received so little attention from economists as a subject of study?
2. "Trial and error throughout the ages secure right food standards for most human groups". Discuss this statement.
3. How are the standards of expenditure determined for the *nouveau riche* in America and England respectively?
4. "Give me the luxuries of life and I will dispense with the necessities". What amount of economic truth does this boast contain?
5. How far is the "simple life" desirable?
6. How far should "experts" regulate our standards of living?
7. Is sumptuary legislation desirable? If so, within what limits?

*Subjects for Study*

1. The conservatism of standards of Consumption as compared with progressivism in methods of Production.
2. The aim of education should be the building up of resistance to mass-suggestion and advertisement.

3. Consumption as a fine art.
4. The place assigned to Consumption in the authoritative works of Political Economy.
5. The growth of "communal consumption".

*Books*

L. H. Haney, *History of Economic Thought*, Ch. xxviii., The Macmillan Company.
S. N. Patten, *The Consumption of Wealth*, Press of the University of Pennsylvania.
R. G. Tugwell, *Industry's Coming of Age*, Harcourt, Brace & Company.

## CHAPTER VI

*Questions*

1. How far can the Population Question be regarded as distinctively economic?
2. Explain the meaning of the term "Optimum Density" regarded from the standpoint of a self-contained nation.
3. How far does "the niggardliness of nature" continue to be the final determinant of an Optimum Population?
4. Can any valid statistics of "racial" or "national" value be adopted?
5. What place does immigration policy hold in the quantitative and qualitative aspects of the Population Question?
6. Can competitive economic success be regarded as a valid test of human values?
7. What truth is there in Dean Inge's aphorism: "We don't know what sort of people we want, but we do know what sort of people we don't want"?
8. How far does the principle of "reversion to the mean" affect the worth of eugenic policies?

*Subjects for Study*

1. The human value attributed to life *per se* must have an effect upon our estimate of "Optimum Density".
2. The possible contribution of eugenic science to the production of a desirable population.
3. The fluctuations in the interest attached to the Population Question from the time of Malthus.

*Books*

J. Bonar, *Philosophy and Political Economy*, The Macmillan Company.
A. M. Carr-Saunders, *The Population Question*, Oxford University Press.
Leonard Darwin, *The Need for Eugenic Reform*, D. Appleton & Company.
H. P. Fairchild, *Immigration*, The Macmillan Company.
T. Malthus, *Essay on Population*, E. P. Dutton & Company.
E. A. Ross, *Standing Room Only*, Century Company.
E. A. Ross, *The Old World in the New*, Century Company.
Harold Wright, *Population*, Harcourt, Brace & Company.

## CHAPTER VII

*Questions*

1. What is the meaning of the term "rationalisation" and how far does the process go towards a rational government of industry?
2. What are the interests of the State in the efficiency and humanity of industry, and how far is the existing State competent to secure these interests?
3. Is the omnicompetent political State destined to give place to a self-declared and accepted government by scientific and business experts?
4. Distinguish the proposals of Syndicalism, Guild Socialism, a Coöperative Commonwealth.
5. Describe the Webbs' *Constitution of the Socialist Commonwealth for Great Britain*. Apply it to the United States, stating how far you consider it desirable and feasible.
6. What line would you draw between public and private ownership and administration of industries?
7. How far does the development of the modern State tend to secure a better distribution of wealth and opportunities?

*Subjects for Study*

1. The anti-democratic tendencies of modern States in their bearing upon economic government, "Conscious Minorities" in Fascism, Bolshevism, etc.
2. "The political State, not previously designed for important

and delicate acts of economic government has been drawn too rapidly into work for which it is ill-equipped". Assess the value of this judgment.

*Books*

G. D. H. Cole, *Self-Government in Industry*, Harcourt, Brace & Company.
W. Y. Elliot, *The Pragmatic Revolt in Politics*, Macmillan Company.
H. M. Kallen, *Freedom in the Modern World*, Coward-McCann.
H. J. Laski, *A Grammar of Politics*, Yale University Press.
G. B. Shaw, *The Intelligent Woman's Guide to Socialism*, Brentano.
W. K. Wallace, *Thirty Years of Modern History*, The Macmillan Company.
Graham Wallas, *The Great Society*, The Macmillan Company.
S. & B. Webb, *Constitution of the Socialist Commonwealth for Great Britain*, Longmans, Green & Company.
H. G. Wells, *The Open Conspiracy*, Doubleday-Doran Co.

## CHAPTER VIII

*Questions*

1. Have the inhabitants of a country a reasonable right to refuse to develop its natural resources and to deny outsiders facilities for doing so?
2. To what extent is "Free Trade" a moral issue?
3. How is the economic factor blended with other factors in modern Imperialism?
4. What is signified by "inter-imperialism" and how far is it likely to go?
5. What do nations mean by their vital interests? To what extent are these interests the gains of groups within the nation?

*Subjects for Study*

1. The mandatory principle of the League of Nations as a basis of equitable relations between advanced and backward peoples.
2. Evidences of the advance of economic internationalism.
3. The ethics of the conflict of loyalties to country and humanity.

*Books*

H. N. Brailsford, *Olives of Endless Age*, Harper.
G. L. Dickinson, *Justice and Liberty*, Doubleday-Doran & Company, Inc.

P. T. Moon, *Imperialism and World Politics*, The Macmillan Company.
N. Pfeffer, *The White Man's Dilemma*, The John Day Co., Inc.
L. Woolf, *Economic Imperialism*, Labour Press.

## CHAPTER IX

*Questions*

1. How do irrational attitudes towards money affect public policy?
2. "Inflation is the mortal sin of finance". Illustrate from War and post-War experience. How do you distribute the responsibility for inflation?
3. What public controls over issue of credit exist, and are they adequate?
4. "The final control of the monetary system must be international." How far is this necessary and practicable?

*Subjects for Study*

1. Money as a moral factor in civilisation.
2. The ethics of stabilisation of prices.
3. "Credit is faith that works".

*Books*

Irving Fisher, *The Money Illusion*, Adelphi Company.
R. G. Hawtrey, *Monetary Reconstruction*, Longmans, Green & Company.
J. M. Keynes, *A Tract on Monetary Reform*, Harcourt, Brace & Company.
W. T. Layton, *An Introduction to the Study of Prices*, The Macmillan Company.
E. M. H. Lloyd, *Stabilisation*, Alfred A. Knopf.
D. H. Robertson, *Money*, Harcourt, Brace & Company.

## CHAPTER X

*Questions*

1. How far does progress depend upon strengthening the conscious social control of the economic system?
2. Are there important classes of producers who would refuse the full use of their productive powers if remunerated on a "needs" or an equalisation basis? If so, on what basis must they be remunerated?

3. How far is speculation distinguishable from gambling, and what part does it play as a factor in economic progress?
4. If our chief economic problems were satisfactorily solved would human nature stagnate?
5. Are the difficulties of converting an "acquisitive" into a "functional" society superable?

*Subjects for Study*

1. "In a genuinely progressive society economic activities would play a continually diminishing part".
2. Science as the deliverance of man from economic bondage.
3. "Equity and economy alike demand that land and other natural values should not continue to yield private incomes". The obstacles which beset the application of this rule of conduct.

*Books*

J. A. Hobson, *Work and Wealth*, The Macmillan Company.
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